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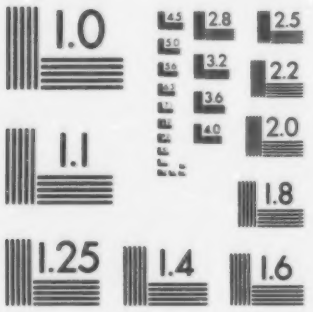

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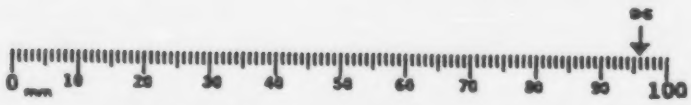

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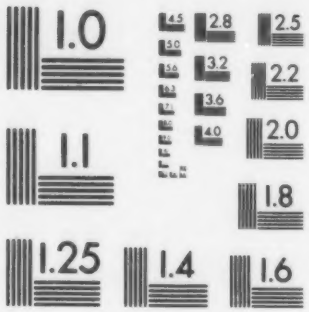

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The Manitoba Hydro-Electric Board 50th Annual Report

for the year ended March 31, 2001

101-06765

Letter of Transmittal

July 31, 2001

The Honourable Greg Selinger
Minister responsible for the administration of
The Manitoba Hydro Act
Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister:

I have the honour of presenting the 50th Annual Report of The Manitoba Hydro-Electric Board together with the financial statements for the fiscal year ended March 31, 2001.

Respectively submitted,

Victor H. Schroeder, QC
Chairman,
The Manitoba Hydro-Electric Board

HIGHLIGHTS

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Maps of Major Electric and Gas Facilities — inside back cover

Cover: Fifty years ago, on May 18, 1951 the provincial government appointed the first members to the Manitoba Hydro-Electric Board, now commonly known as Manitoba Hydro. The logo illustrating the special 50th anniversary carries the theme "Energy for Generations" reflecting the initial purpose behind the establishment of the Manitoba Hydro-Electric Board.

No electricity rate increase in 2000-2001, marking the fifth consecutive year of no rate increases for most customer groups.

For industrial customers, rates have not increased in 10 years.

CONSOLIDATED FINANCIAL in millions of dollars	2000-2001	1999-2000*	change (%)
Gross revenues			
Electricity sales within Manitoba	793	748	6
Extraprovincial electricity sales	480	376	28
Natural gas sales	504	269	87
Total	1 777	1 393	28
Expenses			
Electrical	1 006	976	3
Gas (including cost of gas sold)	501	265	89
Total	1 507	1 241	21
Net income	270	152	78
Retained earnings	1 088	818	33

ELECTRICAL OPERATIONS in billions of kilowatt-hours	2000-2001	1999-2000	change (%)
Generation - integrated system	32.7	30.1	9
Energy supplied - Manitoba customers	20.1	19.1	5
Extraprovincial customers	12.2	10.9	12
Manitoba peak load (millions of kilowatt-hours)	3 636	3 524	3

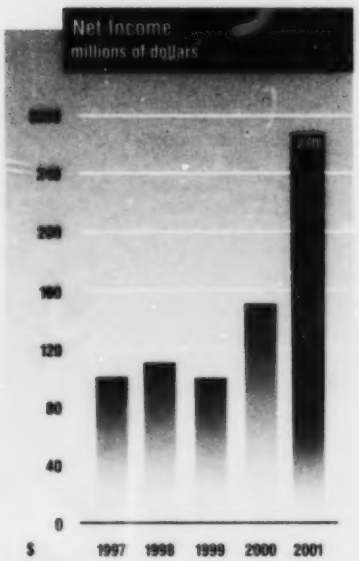
GAS OPERATIONS in billions of cubic feet	2000-2001	1999-2000*	change (%)
Gas Sales			
Small general service	28.1	21.2	32
Large general service	19.1	14.1	35
Other	11.9	9.0	32
	59.1	44.3	33
Transportation	17.6	12.9	36
Total	76.7	57.2	34

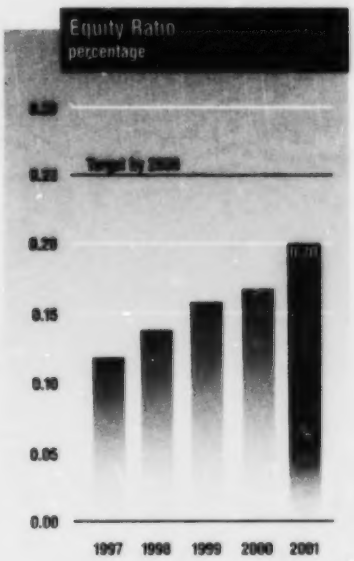
* Results for 1999-2000 include gas revenues and expenses for the eight-month period from the date of acquisition of Centra Gas Manitoba Inc., July 30, 1999.

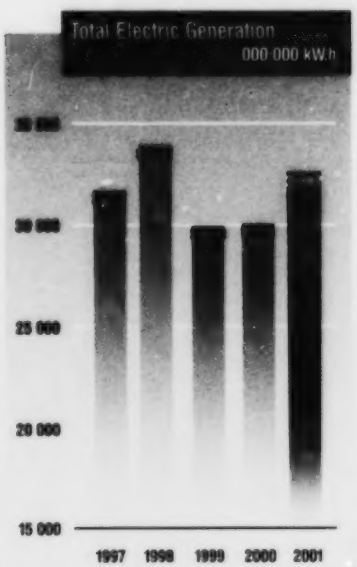
A historic agreement that creates a new model of partnership with First Nations for future hydro developments was signed with the Tataskweyak Cree Nation.

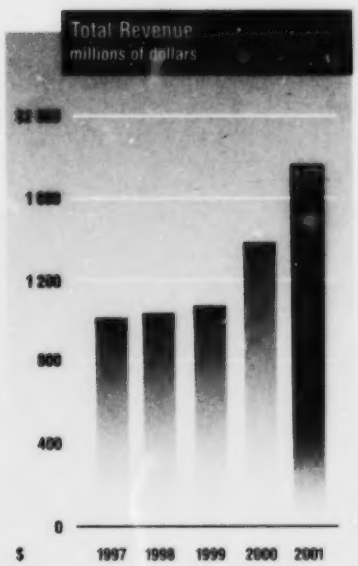
New record of $480 million in export sales was achieved, up 28 per cent from last year.

For the year, consolidated net income was $270 million, the highest level of earnings in the Corporation's history.





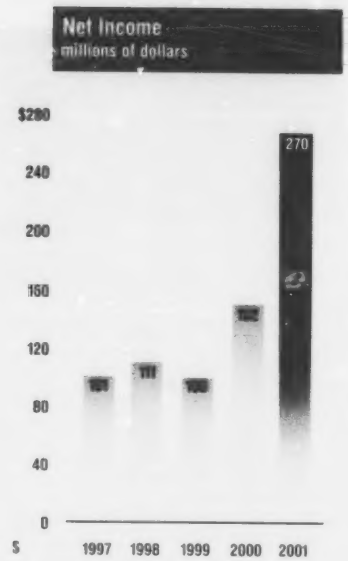


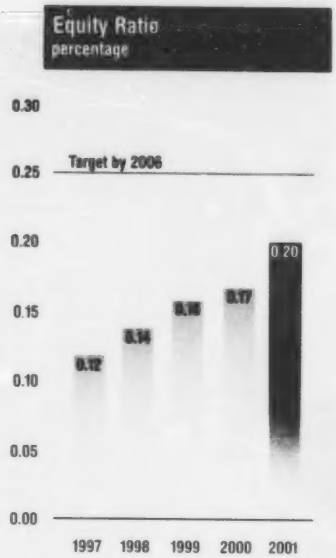


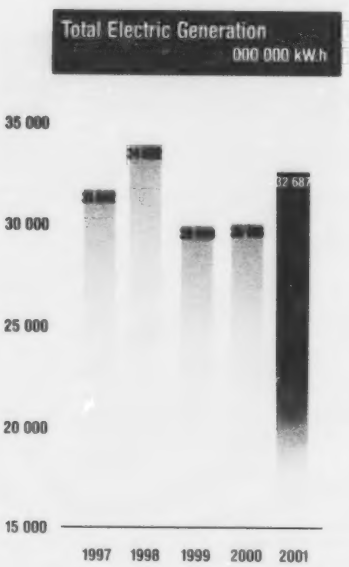
Highlights

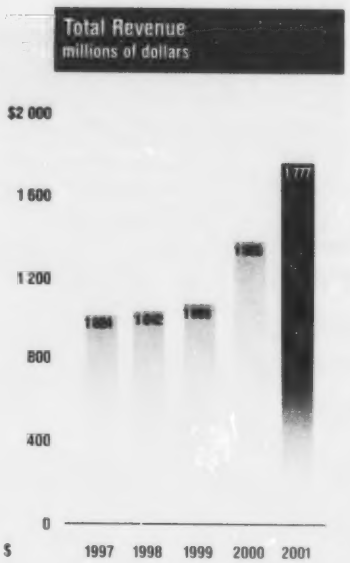
New record of $480 million in export sales was achieved, up 28 per cent from last year.

For the year, consolidated net income was $270 million, the highest level of earnings in the Corporation's history.









Vision

To be recognized as the best utility in North America with respect to safety, rates, reliability, customer satisfaction and environmental management and to be considerate of all people with whom we have contact.

Mission

To provide for the continuance of a supply of energy adequate for the needs of the province and to promote economy and efficiency in the development, generation, transmission, distribution, supply, and end-of-use of energy. Provide and market energy-related products and services, within and outside the province.

Goals

Corporate Profile

Manitoba Hydro is a provincial Crown Corporation providing electric energy to 403 000 customers throughout Manitoba and natural gas service to 248 000 customers in various communities throughout southern Manitoba. We also have formal electricity export sale agreements with over 35 electric utilities and marketers in the mid-western U.S., Ontario and Saskatchewan. In 2000-01 our sales, including exports, totalled 28 780 GW.h, with sales in Manitoba totalling 58 per cent and sales outside Manitoba 42 per cent. We have consistently ranked as one of the top three exporting electric utilities in Canada. Over the last twelve years, Manitoba Hydro revenues from exports have multiplied eight-fold, now amounting to over 37 per cent of the Corporation's total revenue from electricity sales.

We offer a wide range of energy services, either directly through our subsidiaries, or our strategic partners to our domestic customers as well as to the global marketplace.

Nearly all electricity generated is from self-renewing waterpower. On average, about 30 billion kilowatt-hours of electricity are generated annually: 75 per cent produced by five hydroelectric generating stations on the Nelson River and the remainder generated at seven hydroelectric stations on the Winnipeg, Saskatchewan, and Laurie rivers, two thermal stations and four diesel sites. The electricity is transmitted over nearly 100 000 kilometres of transmission and distribution lines. We also are the major distributor of natural gas in the province. The gas is delivered throughout the southern portion of the province to nearly 100 communities using 5 886 kilometres of our distribution pipelines.

Our capital assets in service at original cost exceed $8 billion, making us the fourth largest energy utility in Canada. Headquartered in Winnipeg, Manitoba Hydro has 76 offices throughout the province to serve its customers.

The Corporation's management reports to The Manitoba Hydro-Electric Board, whose members are appointed by the Lieutenant-Governor in Council.

Manitoba Hydro

Chairman's Message

The past year was a demanding, yet, exciting one for the Board as it examined the many opportunities and issues ahead for Manitoba Hydro.

The year 2001 is also a special one in our corporate history as we celebrate the 50th anniversary of the Manitoba Hydro-Electric Board. We pay tribute this year to the men and women who set the course for the development of the power sites on many of the province's waterways. In the words of the Manitoba Hydro-Electric Board Development Act, Statutes of Manitoba 1949, Chapter 29, which became law on April 22, 1949, MHEB was to "provide for the continuance of a supply of power adequate for the needs of the province, and to promote economy and efficiency in the generation, distribution, and supply of power." The appointment of the first members of the Board followed on May 18, 1951, marking the beginning of the Manitoba Hydro-Electric Board as a separate entity. Manitobans today enjoy a reliable, clean, renewable energy source with rates that are the lowest overall in Canada and among the lowest in the world.

Manitoba Hydro's phenomenal growth in export electricity sales since the early 1990s constitutes a real corporate success story and allows us to maintain an enviable power advantage for business investment in our province. The Board is pleased that one of our main U.S. electricity trading partners, Xcel Energy of Minneapolis, selected Manitoba Hydro (pending further regulatory approval) to supply the utility with a further 500 megawatts of electricity for a period of 10 years, an extension of an existing sale of power under different terms and conditions. As the electricity industry continues to evolve, the Board will ensure that the benefits Manitoba Hydro reaps today will serve us well in the foreseeable future.

Manitoba Hydro's northern hydroelectric development in the 1970s did not come without a price. We continue to address the adverse effects of such development. While four of the five First Nations communities affected have benefited from comprehensive implementation agreements arising out of the Northern Flood Agreement (NFA), we continue to implement the NFA with Cross Lake, trying to find a common understanding of our future together. Substantial commitments and investments by Manitoba and Manitoba Hydro in local programs such as roads, environmental clean-ups, resource access programs, community food programs, school lunches and other cooperative arrangements have been implemented in the community.

Today, the development of further hydroelectric sites in northern Manitoba involves the forging of new business partnerships with two of the communities who signed the Northern Flood Agreement comprehensive implementation agreements. Tataskweyak and Nisichawayasihk Cree Nations have both recently, approved in principle the concept of entering into potential ownership and other arrangements for new hydro development near their Reserves. Other First Nations have also indicated an interest in participating in hydropower development in northern Manitoba. The interest of their membership of these Cree Nations in future hydropower development speaks to their desire for a continuing relationship with Manitoba Hydro. The Board is supportive of Manitoba Hydro's and the Cree Nations' efforts in ensuring that the opportunities for Northern Aboriginal people are maximized.

The planning and building of the electricity infrastructure in Manitoba over the past 50 years has left us with a strong foundation on which we can rely on to meet our immediate energy needs. We must continue to ensure that this critical system is adequate to meet future needs by adapting to new technology, using old technology in new ways and building partnerships where all can benefit.

On behalf of the Board, I would like to commend all of the employees of Manitoba Hydro and Centra Gas for their dedicated efforts and significant achievements over the past year.

Victor H. Schroeder, QC
Chairman
The Manitoba Hydro-Electric Board

President's Message

I am very pleased to report on another strong year for Manitoba Hydro on many fronts, securing our reputation as a reliable, low-cost, high-quality energy company that is environmentally and socially responsible. It is personally gratifying that our achievements this year come at a time when the Corporation commemorates a historic milestone—the 50th anniversary of its formation.

Since 1951 we have been meeting the energy needs of Manitobans with electricity rates that are among the lowest in the world, with a high degree of reliability and with customer satisfaction ratings that rank among the best in Canada.

Financially, Manitoba Hydro experienced its best year ever; breaking records for the highest level of earnings and export sales. During 2000-01, we achieved a record net income of $270 million, an increase of 78 per cent over last year's $152 million. In large part, this was possible because of our success in the lucrative electricity export markets and through the dedication and efforts of our staff. All-time high export revenues of $480 million, an increase of 28 per cent over last year, have allowed the Corporation to maintain the same residential electricity rates for five years and to maintain industrial rates for 10 years. As a result, Manitobans benefit from having the lowest overall electricity rates in North America. In fact, because of the direction we have taken, future rate increases over the next 10 years are expected to be well below the projected rate of inflation.

Manitoba Hydro is continuing to forge new relationships with Aboriginal people in northern Manitoba as it examines options for new hydro development projects. A historic agreement was signed during the year with the Tataskweyak Cree Nation, enabling the Tataskweyak, and potentially other Cree Nations within the Split Lake resource management area, to acquire a minority ownership interest in the proposed Gull Generating Station. Work is continuing with the Cree Nations potentially affected by the development of the Notigi and Wuskwatim projects, to perform the necessary planning and environmental studies to facilitate a decision within the next year whether or not to seek a license for one or more of the projects.

We remain focused on ensuring Manitobans receive the best possible service and rates from their utility. Our employees from both Manitoba Hydro and Centra Gas, which was acquired in 1999, are engaged in an extensive integration process. I am pleased to report that we are making tremendous progress in bringing together the two organizations and well on our way to realizing the cost savings and improved services that will benefit all our customers.

Manitoba Hydro's Power Smart® program continues to assist customers to meet energy requirements in a most cost effective manner while contributing to our ability to export by reducing energy use in the domestic market. The initiative is on target to achieve cumulative total savings of 347 MW and 1 218 GW.h per year by the year 2011-12.

President's Message

The extraordinary increases in natural gas prices experienced across North America last winter created a significant burden on our customers. We were able to provide a series of energy conservation initiatives through our Power Smart program to improve the energy costs for our electricity and gas consumers and we instituted a rate management program for gas consumers.

We are strengthening our position as the leader among Canadian utilities in voluntary actions to reduce greenhouse gas emissions. Our announcement this year to extend the useful life of the Selkirk Generating Station until about 2020 by converting the plant to natural gas, one of the cleanest forms of thermally generated power, will significantly reduce the emissions of carbon dioxide from this power source. The station will continue to play an important backup role, supporting the reliability of the system during droughts, ice storms, transmission outages, or high loads.

The strength of our organization and the achievements attained during the course of this year are reflective of the men and women who provide the skills and dedication that make Manitoba Hydro an enduring legacy for all Manitobans. In this, I believe we are unparalleled and I extend congratulations to all employees on achieving a truly remarkable year.

I thank the Chairman of the Manitoba Hydro-Electric Board, Vic Schroeder, and his colleagues on the Board, for their support and guidance during the year.

R.B. Brennan, FCA
President and Chief Executive Officer

The energy saved to date by our customers through the Power Smart initiative enables us to defer building a generating facility the size of our Seven Sisters Generating Station.

A legacy for future generations

During 2001, we are celebrating the tenth anniversary of our corporate commitment to Power Smart®. Over the 10-year period, Power Smart has evolved into more than just a way of providing energy efficiency information and programs. Power Smart programs encourage customers to choose energy efficient products and lifestyles, ultimately saving on their energy bills. In turn, the reduced customer consumption enables Manitoba Hydro to defer the cost of building new facilities. The energy saved through these efficiencies allows us to sell it on the electricity export market, thereby keeping our rates low at home.

The Power Smart strategy has saved Manitobans millions of dollars in energy costs, the power equivalent of supplying the communities of Carman, Dauphin, Morden and Steinbach or building another 160 MW Seven Sisters Generating Station. During the last fiscal year, Power Smart programs saved customers an estimated $17.4 million on their energy bills. To date, energy conservation initiatives have achieved cumulative demand savings of 136 MW and annual energy savings of 435 GW.h. The initiative is expected to achieve cumulative total savings of 347 MW and 1 218 GW.h per year by the year 2011-12. Power Smart remains a legacy to future generations of Manitobans and its value to both our electricity and gas customers is clearly being demonstrated.

Support through new energy conservation programs

Given the unprecedented high natural gas prices across North America, a series of new energy conservation initiatives under the Power Smart program was announced in January 2001. Designed to assist homeowners in making their homes more comfortable and energy efficient, the initiatives include home audits and low-interest financing for retrofitting homes. The Power Smart Residential Loan Program allows customers to receive loans up to $5 000 towards renovation projects undertaken to increase the energy efficiency of their homes. These loans are repayable on their Manitoba Hydro bill over a five-year term. In the first month of the program at fiscal year end, 610 agreement approvals were processed, representing $2.2 million.

Power Smart has saved Manitobans millions of dollars in energy costs, the power equivalent of supplying the communities of Carman, Dauphin, Morden and Steinbach.

Three types of home energy audits are also available to our customers: using our Web site, a mail-in process, or a personalized in-home energy audit conducted by Hydro specialists. Household data is reviewed and a report provided that outlines recommendations for retrofitting, along with the costs and savings related to those recommendations. Since the audits were launched in March 2001, 667 requests for the mail-in audits and 407 requests for the professional audits have been received. At year end, 200 on-line audits and 87 mail-in audits have been processed. Professional audits commenced on March 30.

We also launched a dedicated information line to handle requests for energy efficiency resource materials, provide energy tips and access to our Power Smart energy experts. Over 2 500 requests for information have been received since its introduction in February 2001.

Businesses gain with energy-saving solutions

Providing energy-saving solutions for the businesses and industries we serve is critical to securing their competitive advantage in the marketplace.

Through our various program offerings, numerous businesses, institutions, and large industrial customers throughout the province gained access to our expertise and energy know-how.

A comprehensive online energy audit of your home is just one of the ways to determine if your home is as energy efficient as it can be.

Brandon School Division brightened 20 of its 23 schools in its division by upgrading to high-efficiency fluorescent lighting systems through our Power Smart Lighting Program. Upgrading the lighting and fixtures has helped to modernize building aesthetics, and the school division has reaped energy savings significant enough to be applied to the cost of the retrofit lighting project.

Manitoba's 104 Hutterite colonies represent one of our key customer sectors. Over the past fiscal year, we took several steps to strengthen our relations with this distinct community.

The school division has reaped energy savings significant enough to be applied to the cost of the retrofit lighting project.

In June 2000, Hydro's energy management experts hosted a seminar which provided colony electricians with information on power saving practices and updated them on Hydro agricultural research and development projects in the areas of dairy lighting and swine heat pad technologies. Increasingly, the operation of colonies depends upon complex electrical equipment and high-voltage service. Recognizing a need for increased electrical safety standards, we provided training assistance to a colony electrician training program for a second year. In March 2001, 18 additional colony electricians proudly received their journeyman status.

Rate management program put in place

Manitoba Hydro introduced a rate management program to smooth out the rate increases associated with the significant increases in natural gas supply costs being experienced throughout North America. The program helps reduce swings in customer rates in two ways. First, it allows for Primary Gas rate changes to occur on a quarterly basis rather than annually thereby reducing the build up of differences between actual gas costs and the costs included in the rates. Consequently, rate changes will be more frequent, but less dramatic. Second, rate volatility will be reduced under the program's smoothing mechanism, where 50 per cent of the change in predicted market prices will be incorporated in customers' rates every three months. As a result of unprecedented gas increases over the past winter, the difference between the actual cost of gas purchased and the amount charged to our customers, has accumulated to approximately $120 million. This amount will be recovered from customers in future rates over a period of up to 24 months.

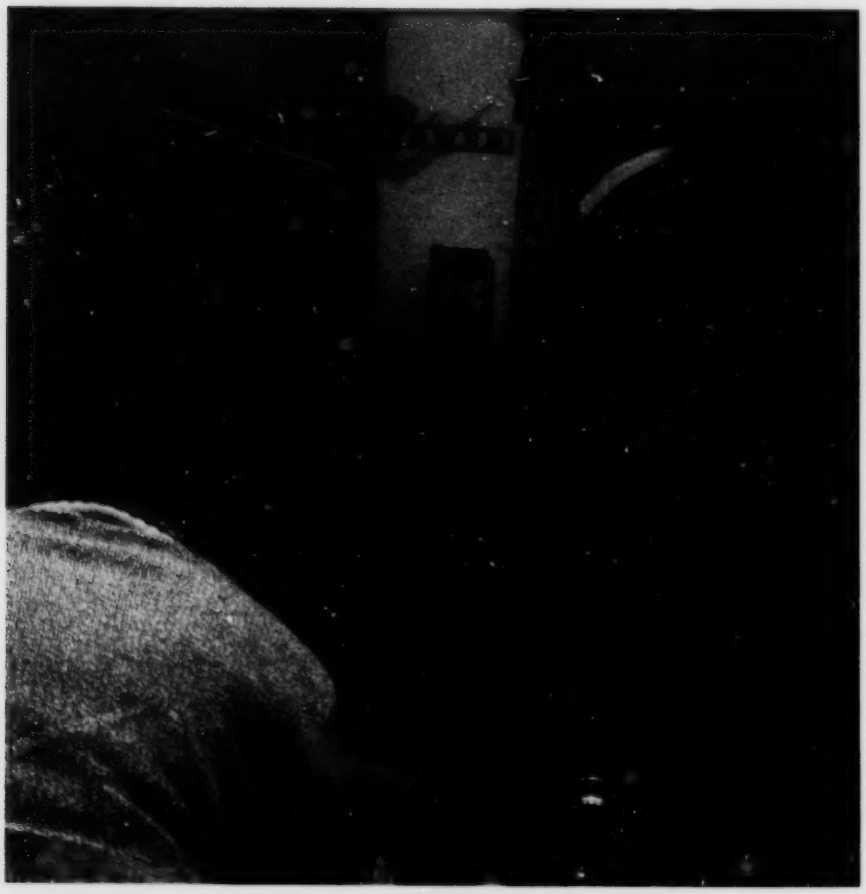
To help customers mitigate the impact of rising primary gas rates, we also extended the natural gas Budget Plan by three months, thereby providing customers with a 15-month plan and assisting in spreading out the costs associated with the volatile gas market. We created a separate call-handling group to respond to our customers' inquiries on the rising gas prices.

Our electricity customers grew by 0.3 per cent to 403 040 during the fiscal year. Residential and business customers now total 353 297 and 49 743 respectively. Natural gas customers grew by 0.9 per cent to 248 074. Of that total, there are 215 167 residential and 32 907 business customers.

Lowest electricity rates

Our residential electricity customers continued to see no increase in their rates, making the fifth consecutive year that rates remained unchanged. Rates for large industrial customers have not increased for 10 years, enabling Manitoba business to remain very competitive with respect to energy costs. Flexible rate options continue to be offered to our industrial and commercial customers. Manitoba's electricity rates remain the lowest overall in Canada and among the lowest in the world.

Unprecedented price increases of natural gas affected consumers across Canada. In Manitoba, our residential customers were obliged to absorb general increases in the range of 16 per cent in August 2000, 11 per cent in November 2000 and 26 per cent in February 2001. Industrial customers also experienced a 17 per cent to 28 per cent increase depending on consumption throughout this period, similar to other areas across the country.



Media and public attention was high as utilities all across North America had to deal with unprecedented price increases for natural gas.

Interlake customers access natural gas

Natural gas service became available to the Interlake communities of Teulon, Arborg, Riverton and Warren in 2000-01. The $7.3 million gas distribution project was cost-shared among Canada, Manitoba, the municipalities, Centra Gas and customers through upfront contributions. Almost 200 kilometres of transmission and distribution pipeline were installed making natural gas service available to over 1 100 residences and more than 250 businesses in these communities. Since the project's completion in the late fall of 2000, a total of 274 customers have signed up to receive natural gas service throughout the four communities.

Centra Gas integration achieves cost savings

Since the acquisition of Centra Gas Manitoba Inc. in July 1999, the integration of the two utilities' operations has achieved cost savings of at least $12 million per year through efficiencies and streamlined work processes. Facilities outside Winnipeg including our two largest offices, Portage la Prairie and Brandon, have been integrated with Centra Gas and Manitoba Hydro staff now working out of the same building and sharing tasks where appropriate. A knowledge exchange between the two employee work groups—electricity and natural gas—is streamlining operations for the utility as well as meeting the needs of all our customers. For example, cross training of employees changing gas meters and those who change electric meters began during the year.

Customers reap benefits from the "one-stop energy shop"

Customers receiving service from both Manitoba Hydro and Centra Gas saw their bills delivered in one envelope in February 2001 as part of Hydro's integration activities. The "two bills, one envelope" approach provides customers an opportunity to coordinate payments between the two utilities in a one-stop process as well as saving the utility postage and envelope costs. Presenting account information for both electricity and natural gas on one bill is the next step in our customer billing integration process.

Customers of both gas and electricity are seeing other one-stop service benefits. Customers arranging for an extension of gas or electricity to their homes or businesses can now do so by making one call to the utility. As well, customers in most locations can phone one number to obtain the location of electricity and gas lines on their property.

About 200 kilometres of transmission and distribution pipeline was installed making natural gas available to almost 1 400 homes and businesses in four Interlake communities.

Customer registry brings improved listening skills, community based solutions

Feedback from our customers provides us with insights into improving our work processes as well as helping us better meet customer service expectations. During 2000-01, we implemented a revised customer complaint registry allowing us to ensure that corrective action has been taken on each and every complaint. The process also allows us to determine if any actions are necessary to improve either the work process or customer service practice. We are confident that this awareness will create stronger customer satisfaction as well as greater operational efficiencies.

The corporate-wide process has also revealed added benefits. For example, a complaint filed by a property owner frustrated by continuous personal property damage by individuals using our right-of-way as a throughway resulted in the utility participating in a community-based solution. With the City of Winnipeg, Manitoba Hydro, businesses in the area and residents from two adjoining streets, the community was able to fund the building of a fence between the right-of-way and back lane adjacent to the property. Property damage has been significantly minimized since access through the right-of-way has been blocked.

Our energy management assistance provides many of our major customers with information for reducing energy bills, improving power quality and keeping production running smoothly.

Exceeding corporate and customer expectations

Enhancing relationships with our 12 largest customers is an important goal for the Corporation. For example, we now participate on the INCO Limited Manitoba Division energy management team where decisions on capital investment and changes to INCO operations are made.

Over the past year, INCO installed a comprehensive computerized energy management system that will save the company $1.5 million a year on its electricity bill. The system helps INCO make more nickel for less by identifying opportunities for reducing energy costs, improving power quality, and keeping production running smoothly. The system has proved so successful that INCO recently added an upgrade that enables remote monitoring and control of the company's water treatment plant, for additional energy savings as well as improved monitoring and maintenance planning. There are six other companies now installing similar computerized energy management systems.

Solutions with a high-technology edge

Hand in hand with energy management solutions for our major customers comes assistance in providing applied research and development solutions, electro-technology evaluations, integrated manufacturing and power quality solutions.

One company that benefited from our assistance was Prairie Forest Products in Neepawa. The company recently replaced five small conventional air compressors with a larger single unit controlled by a built-in variable speed drive (VSD) for extremely efficient operation. The VSD-controlled compressor—the first of its kind in the province—is complemented by additional refinements to the company's compressed air system, for energy savings of nearly $12 000 a year as well as reduced maintenance and downtime.

We also addressed power quality issues by producing a standard to evaluate power quality parameters at the point of contact with the customer's supply. It is primarily targeted for large industrial customers requiring power factor correction capacitors within their plants.

A unique project undertaken during the course of the fiscal year involved developing a commercial underground plant growth chamber near Flin Flon. The facility, spearheaded by Prairie Plant Systems Inc. of Saskatoon, will be used to produce biopharmaceutical crops, plants that produce specific proteins for industrial and pharmaceutical purposes. Producing proteins via plants, rather than traditional means, affords substantial cost savings. Growing plants underground such as in the northern mines of the Flin Flon region is an energy intensive process with 80 per cent of the energy requirement coming from lighting. We designed a high-efficiency lighting system, assisting in biopharmaceutical crop production and thereby establishing Manitoba to be a leader in this biotechnology area.

A unique project undertaken during the course of the fiscal year involved developing a commercial underground plant growth chamber near Flin Flon.

Assistance was also provided to Canadian National Railways' Symington Yard operations by installing a remote energy management system used to control the 24-hour winter operation of track switch snow blower motors.

Reliable network key to supplying energy value

As technology fueled by energy becomes more prevalent in people's homes, businesses, and industries, the provision of energy focuses on maintaining system reliability. Manitoba's harsh and diverse climate provides us with the added challenge of meeting reliability with the reality of uncontrollable weather situations.

Ice rolling operations near Oakville.

A particularly severe ice storm accompanied by strong winds across western and central Manitoba resulted in numerous outages in early November. Over a five day period, ice melting and ice rolling were underway around the clock, with ice melting conducted on approximately 5 760 kilometres of lines. Approximately 4 560 kilometres of lines had ice removed utilizing ice rollers. Early response and a coordinated effort between various jurisdictions was key to minimizing equipment damage and customer outages.

A prolonged outage of a critical 230 kV line in North Dakota resulted in significant constraints on the ability of Manitoba Hydro to import energy from the U.S. under emergency conditions. Manitoba Hydro engineers provided an innovative solution to resolve the problem. Working with several U.S. utilities and the Mid-Continent Area Power Pool (MAPP), our engineers designed new temporary system operating limits and guidelines that protected this import capability. After devising the solution, cooperation between Manitoba Hydro and utilities in the U.S. allowed a 19 kilometre temporary line to be reconstructed in only two weeks. Similarly, due to equipment failure at the Manitoba-Ontario border, imports from and exports to Ontario have been affected. A new approach to protecting this source of supply is also being applied.

Working with several U.S. utilities and the Mid-Continent Area Power Pool (MAPP), our engineers designed new temporary system operating limits and guidelines.

With the planned completion of a 230 kV transmission line to the U.S. from Glenboro, Manitoba to Rugby, North Dakota in the summer of 2002, our capability for import and export will increase by 200 megawatts and the reliability of supply in this region of North Dakota and in western Manitoba will be improved. Site selection and environmental assessment study activities continue to be undertaken on the project at fiscal year end.

The construction of a new 230 kV transmission line, such as the one at right, will increase our capability to import and export as well as increase the reliability of supply in western Manitoba.

Electricity industry continues to evolve

Through MAPP, the Canadian Electricity Association, and the Canadian Hydropower Association, Manitoba Hydro has continued to advocate its position on deregulation and express its views on critical issues facing the industry.

Continuing deregulation of the electric utilities in the United States has resulted in many new operating requirements designed to ensure reliable operations. Our planning and operating procedures are in compliance with the North American Electricity Reliability Organization standards and policies that apply to the interconnected North American power grid.

Continuing deregulation of the electric utilities in the United States has resulted in many new operating requirements designed to ensure reliable operations.

In order to maintain supply in emergency situations, Manitoba Hydro, by membership in MAPP, shares in the reserve pool of the MAPP utilities. While our power system depends on the high voltage direct current transmission system to transmit energy generated at northern plants to southern Manitoba, historically these facilities have experienced, on average, two very short duration outages every year. New operating procedures were initiated during the past year following a review of the historical performance of the system. There were no significant unplanned outages in year 2000.

Standards of conduct in the new deregulated operating environment were developed which now place restrictions on information flow between those staff that perform electricity market operations and those that operate the transmission system. During 2000, training sessions were held in all areas of the Corporation involving operations and export marketing to ensure these standards are being met.

In aid of market activity, a new computer program was placed in service over the year that automatically determines the maximum available transmission limits for export lines, given the availability of other lines, generation and equipment needed to support imports or exports. This information is posted on an electronic bulletin board known as the Open Access Same Time Information System (OASIS) at the MAPP Centre in Minneapolis-St. Paul, Minnesota.

Manitoba Hydro assumed full responsibility for providing real time hourly power trading services in March 2001. Real time trading, involving the hourly and daily selling or buying of electricity, had previously been provided under contract by MPEX, a division of Minnesota Power.

The newly established 24-hour Power Trading Office buys and sells electricity to meet our immediate needs.

Paving the way to open transmission markets

Providing access to our transmission system by others ensures our access to the wholesale marketplace in the United States. Accordingly, utilities are allowed to purchase transmission capacity from Manitoba Hydro for transporting their power.

Access to our transmission system by others ensures our access to the wholesale marketplace in the United States.

In December 1999, the U.S. Federal Energy Regulatory Commission (FERC) issued a ruling setting out the characteristics and requirements to form non-profit independent Regional Transmission Organizations (RTOs) across the entire U.S. power grid. To date, two RTOs have been approved in the U.S. that would provide those organizations independence from the marketplace and from the owners of the transmission grid. We continue to evaluate several RTO options in the U.S., and are considering establishing coordinating agreements.

Fibre optics systems under expansion

To further strengthen the reliability of our power system—related to telecommunications—we are planning to replace two microwave systems with fibre optics technology in 2002. The main route will provide Manitoba Hydro with reliable communications for the operation of its HVDC transmission system.

We also continue to explore opportunities to lease surplus broadband capacity to telecommunications carriers and Internet Service Providers.

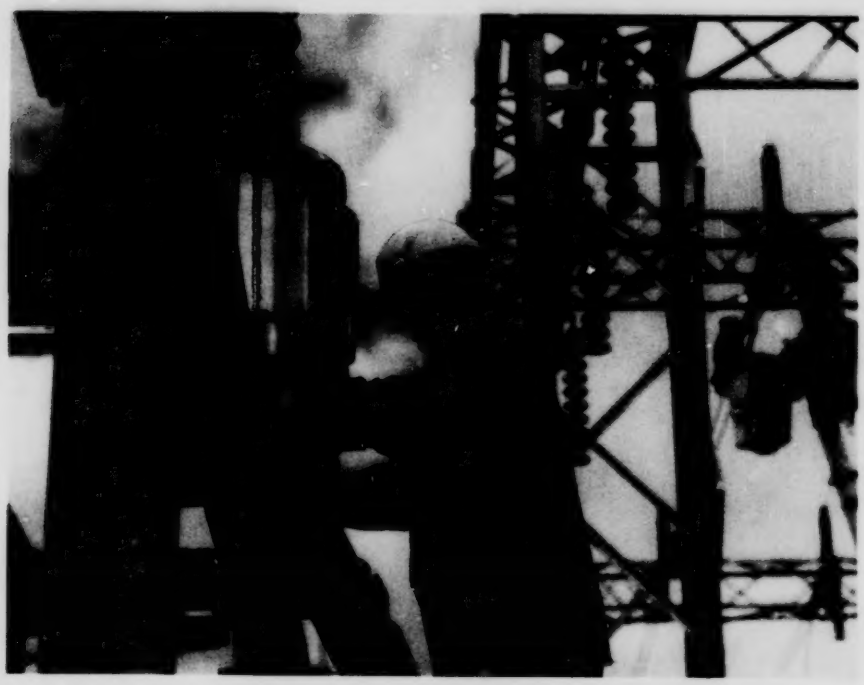
Communities' supply needs grow

A new 115 kV station was constructed in Flin Flon to support the Hudson Bay Mining & Smelting operation and a second 115 kV station in Winnipeg at Plessis Road to meet increased customer load in the St. Boniface Industrial Park area.

Customer load growth resulted in a number of ongoing requirements for transmission and distribution. Station upgrades, additions and rebuilds were completed at Rosser, Leaf Rapids, William River, Norway House, Cliff Lake, Brandon-Victoria, Birch River, Brandon-Louise, Netley, Ochre River, Waywayseecapo, Selkirk-Mercy, Pine Falls, Brandon-Cornwallis, Brandon-Highland Park, Raven Lake, Russell, Eriksdale, Wawanesa, Neepawa, Oak Bluff, and Pukatawagan.

In Winnipeg, station refurbishments were completed at Springfield Road, Fort Garry-Henlow, Portage-Saskatchewan, Kirkfield Park, and Lord Selkirk-Inkster.

Approximately 18 kilometres of gas transmission pipeline was installed between the towns of Elm Creek and Carman in the late fall of 2000. This upgrade was planned for the summer of 2001 but due to significant commercial and residential growth in the Winkler area the installation was accelerated to ensure a secure supply of natural gas to customers over the 2000-01 heating season.



Ensuring reliability of supply and to meet expanding loads in a number of Manitoba communities takes an ongoing requirement to upgrade, add or rebuild our substation facilities.

Strengthening our rural distribution system

Since 1981, we have conducted a program of wood pole inspection and maintenance. During the fiscal year, the majority of poles inspected were on the rural distribution system. Many of the 250 000 poles in this system have been in service for 40 to 50 years, put in place during the time of extensive farm electrification. Of the 41 069 poles inspected, only three per cent required replacement or reinforcement due to decay, mechanical damage, insect damage, fire, or lightning. This program has not only improved service reliability by identifying the small percentage of poles for replacement before they fail, but helps to maximize the service life of the majority of poles. This has deferred the cost of pole replacements that is estimated to be $1 700 to $2 000 per pole and provides environmental benefits by reducing both the number of trees needed to be harvested and the disposal of unfit pole material.

Spares improve HVDC availability, bringing added reliability

Major strides in improving the reliability, availability and capability of the HVDC transmission system were made in 2000-01. The system is extremely important to Manitoba Hydro as it transmits over 75 per cent of Manitoba's total energy requirements from the Nelson River in the north to the south. Outage duration, should a failure occur, has been reduced significantly—in some cases from many months to hours—through the purchase of spare transformers and smoothing reactors—a filtering device to ensure power quality. A failed smoothing reactor would curtail 1 000 MW of HVDC transmission capability while a failed converter transformer would result in as much as 800 MW being curtailed.

Selkirk conversion

A $30 million plan to convert the Selkirk thermal generating station from coal to cleaner burning natural gas was announced during 2000-01. The fuel-switching project will ensure that the station remains compliant with pending changes to Federal Legislative emissions standards for utility power plants to be introduced over the coming decade. Use of natural gas will also produce fewer greenhouse gas emissions, helping us to meet our voluntary greenhouse gas reduction commitments. We are committed to reducing net greenhouse gas emissions by six per cent below 1990 levels by 2012. The plant will be converted in 2002 pending receipt of all necessary environmental approvals and licenses.

As well, a second stage of environmental improvements at a cost of up to $29 million that would extend the life of the station until about 2020 is planned for 2005. In order to proceed with this stage, further environmental approvals and an extension of the existing operating license is required. The Selkirk station will continue to function in its back-up role to our hydraulic system. The reliability of the hydro system depends on our thermal plants to provide generation during times of low water flows, during system peaks and when other equipment is down for repair or replacement.

Use of natural gas will also produce fewer greenhouse gas emissions, helping us to meet our voluntary greenhouse gas reduction.

A new 218 metric ton converter transformer is commissioned just outside the Bipole II building in the Dorsey Converter Station yard.

Taskinigup Falls, future site of the Wuskwatim Generating Station on the Burntwood River.

First Nations tied closely to future development plans

Discussions, centered on the potential of developing three hydroelectric generating stations in northern Manitoba, continued with the two northern Cree First Nations. In October 2000, Tataskweyak (Split Lake) Cree Nation and Manitoba Hydro signed a non-binding Agreement-in-Principle which provides the framework for concluding a binding Project Development Agreement for the proposed 675 MW Gull generating station project. It provides, among other matters, an investment opportunity for the Cree Nation to acquire a minority ownership position in the Gull project. At the request of our Cree partners, we are actively considering changing the name of the generating station from Gull to Keeyask. Keeyask is the original name for the rapids in the area.

Nisichawayasihk (Nelson House) Cree Nation and Manitoba Hydro have also negotiated an Agreement-in-Principle for the proposed 200 MW Wuskwatim and 100 MW Notigi generating station projects. A community vote taken in May 2001 resulted in its approval. Manitoba Hydro has been in discussion since 1997 with Nisichawayasihk on the Wuskwatim and Notigi projects and with Tataskweyak since 1998 on the Gull.

It provides, among other matters, an investment opportunity for the Cree Nation to acquire a minority ownership position in the Gull project.

The Notigi and Wuskwatim projects are on the Rat-Burntwood River system in the Nisichawayasihk Cree Nation resource management area while the Gull project is located on the lower Nelson River in the Tataskweyak Cree Nation resource management area. The development of one or more generation projects would take advantage of strong, profitable export markets in the United States. It would also provide employment and contract opportunities for local residents.

The Corporation continues to consider other long-term generating options such as the Conawapa Generating Station on the Nelson River and the associated high voltage direct current Bipole III transmission facilities.

Senior Manitoba Hydro officials participated in a ceremony conducted by the Nisichawayasihk Cree Nation at one of the Cree Nation's original settlement sites on the northwest shore of Wuskwatim Lake. From left, Chairman Vic Schroeder, Nisichawayasihk Cree Nation Chief Jerry Primrose, President & CEO Bob Brennan and Vice-President Al Snyder.

Manitoba Hydro and the Assembly of Manitoba Chiefs Secretariat, Inc. (AMC) signed a memorandum of understanding in December 2000 recognizing the benefits of employing, encouraging, and retaining First Nations' people to work for the utility. The first product of this historic partnership will be the establishment of an Employment Working Group (EWG), whose objective will be to address the participation of First Nations' people within our workforce.

The EWG will be made up of representatives of six groups—AMC, Manitoba Hydro, Southern Employment and Training, Aboriginal Apprenticeship Training, and Keewatin and Winnipeg First Nations Employment and Training. A similar partnership agreement is being pursued with the Manitoba Metis Federation.

Environment emphasized in station design

As part of its increased emphasis on environmental protection, Manitoba Hydro has decided to redesign and pursue low-head, low-impact projects, which minimize the amount of flooding that would be caused by the projects. Estimates indicate Notigi would not result in any flooding, Wuskwatim in approximately one-half square kilometre, and Gull in approximately 42 square kilometres of flooding.

Diesel sites clean-up, upgrade

Remedial work at the former diesel generating station at St. Theresa Point First Nation has begun. Clean up at the former diesel sites at Oxford House, Garden Hill and Red Sucker Lake were completed in the summer of 2000. Weather conditions delayed completion of soil remediation efforts at Oxford House, Red Sucker Lake and God's River to the summer of 2001. Soil remediation efforts also continued at Pauingassi, Nelson House Medicine Lodge, Poplar River, Pikwitonei, Brochet, and at the former Brandon 10th Street generating site.

Following extensive discussions, the Shamattawa First Nation approved the construction of a new diesel generating station in March 2001 to meet their growing needs.

Obligations to communities impacted by developments

Discussions with other First Nations and communities not covered under the NFA are ongoing to ensure any project-related impacts are mitigated and/or compensated in a fair or equitable manner.

We embarked on the final year of a program to conduct archeological work in the Southern Indian Lake area and along the Churchill River Diversion route. Activities include identifying, studying, preserving and protecting archeological sites at risk from raised water levels attributable to the diversion project. Nisichawayasihk Cree Nation, the community of South Indian Lake, the Manitoba Museum of Man and Nature and the provincial department of Aboriginal and Northern Affairs have been collaborating on this project.

A program to conduct archeological work in the Southern Indian Lake area and along the Churchill River Diversion route includes identifying, studying, preserving and protecting archeological sites.

Some few remaining outstanding issues arising from the Grand Rapids project are progressing. The Corporation and the rural municipality of Kelsey reached agreement on concerns related to the Pasquia Land Reclamation project and Rahl's Island.

Along with the province, we are working with Mosakahiken Cree Nation, Chemawawin Cree Nation, Easterville Community and Moose Lake Community to finalize settlement agreements that would resolve outstanding issues related to land and resource management. Agreements-in-Principle were signed last year and the parties are moving to translate those understandings into four final agreements. Canada has recently joined these discussions.

Negotiations with the Grand Rapids Fishermen's Association and Co-op have resulted in a final agreement. The agreement includes provisions for reasonable compensation to both active and retired commercial fishers as well as trust funds intended to encourage and support ongoing commercial fishing. A ratification process was underway at year's end.

An Agreement-in-Principle was signed in March 2001 by the Province, Manitoba Hydro and the Fox Lake First Nation located in Gillam and Bird. The agreement outlines how the parties will reach a comprehensive settlement agreement for mitigation and compensation of past adverse effects from hydro development in their traditional resource territory.

New partnerships are being forged with aboriginal communities as we examine the potential of developing three hydroelectric generating stations in northern Manitoba.

Negotiations are also progressing favourably following a Memorandum of Understanding signed by the Province, Norway House Community Council, Cross Lake Community Council and Manitoba Hydro in February 2001. The process is aimed at resolving outstanding issues arising from the effects of past hydro developments on these two communities.

Along with both the federal and provincial governments, we have been working over the past year to resolve past adverse effects from Hydro development on the War Lake First Nation in Ilford. A final settlement is anticipated in the coming year.

We remain committed to addressing the concerns of the Cross Lake First Nation with respect to our operations in their community. Unlike the Comprehensive Implementation Agreements entered into with four of the five Northern Flood Agreement (NFA) First Nation signatories—Split Lake Cree First Nation in 1992, York Factory First Nation and Nelson House First Nation in 1995 and Norway House Cree First Nation in 1997—we are now examining alternative methods to implement the NFA with the Cross Lake community. A Steering Circle, made up of Canada, Manitoba, Cross Lake and Manitoba Hydro, has been established to work on specific implementation and policy activities.

As part of the NFA provision to support trapping, a new five-year program was implemented in the fall of 2000 for the Cross Lake Resource Management Area. The program will focus on re-establishing a revolving grubstake, providing annual income and support payments based on the harvest of aquatic furbearers, and funding rehabilitation/improvement of infrastructure such as cabins and docks on registered trap lines.

As part of the successful fishing and alternative foods program funded by Manitoba and Manitoba Hydro, a new fish distribution shed was constructed for the community. An active gardening program resulted in significant produce production. Turkeys, chicken, beef or pork are distributed to each household at least quarterly. A hot lunch program in the schools provides meals for all school children in the community. Funding support of recreational activities continues.

In addition, a debris management program at Jenpeg, Cross Lake and Sipiwesk Lake continues to be implemented on an accelerated and expanded basis as part of the NFA implementation effort. Debris management work on Stephens and Cedar lakes near Long Spruce and Grand Rapids generating stations respectively is also ongoing.

While these activities are underway to continue to support the community and to negotiate new programs to fulfill the Northern Flood Agreement, Cross Lake First Nation continues an active publicity campaign in the United States and here in Manitoba. For the past two years, through a paid lobbyist in Minneapolis-St. Paul, Cross Lake has been working to undermine exports of Manitoba hydroelectricity to U.S. electric utilities.

As part of the NFA provision to support trapping, a new five-year program was implemented in the fall of 2000 for the Cross Lake Resource Management Area.

The First Nation has intervened at regulatory hearings held to examine a proposed sale from Manitoba Hydro to Xcel Energy of Minneapolis-St. Paul. It has called for Xcel and other utilities to stop doing business with Manitoba Hydro and provided its negative perspectives on Manitoba Hydro to legislators, regulators, environmental and aboriginal groups, and the media. Manitoba Hydro has defended its interests in Minnesota and nearby states and demonstrated that it has dealt fairly with Cross Lake, as it has with other First Nations that it has impacted. Whenever the issue is examined in detail before a U.S. audience, as it was before the Minnesota Public Utilities Commission (MPUC) in November, 2000, the accusations of unfair treatment do not withstand scrutiny. Manitoba Hydro's proposed sale was approved by the MPUC subject to approval of the negotiated agreement.

To date, we have committed $441 million for remedial works, compensation and/or mitigation initiatives in northern Manitoba.

Towards leadership in ecological protection

During 2000-01 our Environmental Partnership Fund provided support to 19 environmental projects. Since its establishment in 1992, the Fund has been instrumental in assisting a diverse set of community based environmental/education initiatives throughout Manitoba. Some of the organizations supported include the Thompson Heritage North Museum, the Manitoba Forestry Association, the Prairie Conservation and Endangered Species National Conference, and Green Kids Inc. In 2000-01, the fifth year of the 10-year Forest Enhancement Program, 85 tree planting, forest education and innovative forestry projects were supported. The program recognizes the loss of forest lands impacted by power system developments.

Long Spruce Generating Station becomes the first station in our system to meet ISO 14 001 criteria for managing processes that have an impact on the environment.

Over half of our 14 generating stations were registered to the ISO 14 001 standard. Selkirk and Brandon thermal generating stations, Long Spruce Generating Station on the Nelson River and the four Winnipeg River generating stations of Pine Falls, Seven Sisters, Great Falls and McArthur all received their designation during 2000-01. The certification means that stations meet the criteria set by the International Organization for Standardization (ISO) for managing processes that have an impact on the environment. The remaining facilities are expected to be certified in the coming year.

We continue to study the movement and habitat needs of the Woodland Caribou in partnership with Manitoba Conservation and several other wildlife associations. By deploying Global Positioning System collars, communications software, and various mapping and data analysis techniques, data analysis was completed in February 2000 on the Owl Lake herd. We have now moved our attention to the Sasaginnigak Lake herd to further improve our response to environmental and biological impacts resulting from transmission line development. Woodland Caribou in Western Canada are listed as "threatened" by the Committee on the Status of Endangered Wildlife in Canada, a national body of scientific experts.

A Woodland Caribou gets fitted with a Global Positioning System collar, enabling us to use the information to improve our response to environmental and biological impacts resulting from transmission line development.

Reducing climate change impacts

A leading Canadian environment think-tank—the Pembina Institute—has named Manitoba Hydro the top performer among Canadian electrical utilities in the fight against climate change. The institute's independent review noted Manitoba Hydro's climate change mitigation programs are comprehensive and have delivered results.

Both Manitoba Hydro and its subsidiary, Centra Gas were recognized by Canada's Climate Change Voluntary Challenge & Registry (VCR) Inc. for reporting climate change efforts. Manitoba Hydro received a Gold Champion Level designation for the second year in a row and Centra Gas was recognized as a Silver Champion Level reporter. The National Action Program on Climate Change for Managing Greenhouse Gas Emissions challenges business and government to take action voluntarily to reduce emissions including a commitment to regular reporting. A number of improvements to equipment used in monitoring and distributing natural gas were also put in place during the year to ensure further greenhouse gas emission reductions.

Optimizing generation

Construction is underway on a $177 million combustion turbine plant in Brandon. The 260 MW two natural gas-fuelled turbines are being built to enable Manitoba Hydro to expand its export revenues and to provide additional reliability to electrical customers in southern Manitoba. Export revenues will be increased mainly through using the combustion turbines to backup energy from existing hydraulic generation during low flows or transmission line outages. This allows the hydraulic energy to be sold into the higher priced export market. Even when all hydraulic capacity is available, some additional revenues will also be obtained from operating the combustion turbines for export during price spikes on the export market.The first turbine unit is scheduled to be on line in May 2002.

A major overhaul of Grand Rapids Generating Station Unit 2 began in August 2000. The unit was completely dismantled and the major components refurbished. It is expected to be back in service in the summer of 2001.

A pile rig is placing one of the 700 piles to anchor the combustion turbine plant at the Brandon Generating Station.

The Reliability Centred Maintenance (RCM) program was ongoing throughout 2000-01, ensuring that performance of the right maintenance task, at the right time and for the right reason was made at all our facilities. Employing a condition-based maintenance practice rather than a time-based practice has eliminated many invasive maintenance tasks. Since its adoption in 1998, RCM has reduced the number of equipment outages by approximately 70 per cent.

New production and consumption records set

During 2000-01, Seven Sisters Generating Station produced 1.25 billion kilowatt-hours exceeding its previous production record established in 1974-75 of 1.24 billion kilowatt-hours. Upgrades to four of the six units at the station over the last several years allowed the station to take advantage of the excellent water conditions that occurred this year on the Winnipeg River.

Manitoba electrical energy consumption reached a record 20.1 billion kilowatt-hours, up 5.3 per cent from the previous year and up 3.6 per cent from the old record of 19.4 billion kilowatt-hours established in 1998-99. Approximately 40 per cent of the increase in demand was weather-related, as the winter of 1999-00 was one of the warmest on record while this past winter was colder than normal.

Maximum daily gas distribution throughput occurred on December 12, 2000. The gas volume for the day was approximately 489 000 gigajoules of which transportation only customers received 64 000 gigajoules, firm customers 414 700 gigajoules and interruptible customers 10 300 gigajoules.

Committed to Employment Equity

Developing a workforce that is representative of Manitoba's labour market remains a key strategic goal for us. As an employer that is committed to employment equity, Manitoba Hydro has made significant progress in the employment of women, aboriginal people, persons with disabilities, and members of visible minorities. Programs have been introduced that will further increase representation of these minority groups within our workforce. One such program is the recruitment, retention and training and development of the aboriginal workforce. In its third year, the Aboriginal Pre-Placement Training Program has nine individuals on rotational assignments in our northern facilities through the mechanical, electrical and control room operator trades. Presently, 23 individuals remain active in the program. Due to its success, we are now planning to expand the program to our southern facilities.

Our attendance at numerous career fairs and trade shows hosted by the aboriginal communities of Split Lake, Norway House, Oxford House, Cranberry-Portage, and The Pas has further encouraged people to consider Manitoba Hydro as a possible employer.

Northern Aboriginal communities undertake a significant program each year to remove floating debris that could impede safe travel on northern waterways. The Debris Management Program identifies areas where the work is needed, the removal of the debris and the method of disposal.

The initiative to increase the employment representation of women, the disabled and other visible minorities continued in 2000-01. At year-end, out of a total workforce of 4 544, there were 1 120 women, 299 aboriginals, 122 persons with disabilities and 127 members of visible minority groups in the Corporation's employ. An employee self-declaration survey conducted during the year will provide us with additional statistics from our recent acquisition of Centra Gas.

Centra Gas employees become Hydro employees

In January 2001, all former Centra Gas employees became Manitoba Hydro employees. Previously non-unionized employees were transferred to the appropriate bargaining units within Manitoba Hydro and their wages, benefits and working conditions were harmonized into Manitoba Hydro plans. A Memorandum of Agreement was signed between the Corporation and the four bargaining units representing Manitoba Hydro employees (including the Communications, Energy and Paperworkers Union, the bargaining unit representing former Centra Gas unionized employees) on the jurisdictional work assignments and a mechanism for resolving future jurisdictional disputes.

Three-year collective agreements were successfully negotiated with three of the four bargaining units. The Canadian Union of Public Employees, Local 998, International Brotherhood of Electrical Workers, Local 2034 and the Association of Manitoba Hydro Staff and Supervisory Employees all renewed their collective agreements until 2003. The collective agreement with the Communications, Energy and Paperworkers Union representing former Centra Gas field workers expires in February 2003. Negotiations are being conducted with this bargaining unit on the harmonization of wages, benefits and working conditions to be comparable to those applicable to electrical work.

A process to streamline the job documentation and evaluation systems was adopted to ensure a more open and participative tool for employees and management. During the past year, various teams throughout the Corporation were involved with the project to develop new job evaluation tools. Manager training was held in the fall of 2000 and implementation for employees occurred in February 2001.

A knowledge exchange between the electricity and natural gas employees will help streamline operations for the utility.

Employee skills enhanced through training

As the energy industry continues to evolve, it becomes even more critical that our employees' skills evolve to accommodate this change. During 2000-01, our trades and technical training programs were restructured to better reflect our dual-energy provider status. Building a curriculum of new leadership development tools for our management teams was also implemented during the year.

Safety is number one

Improving safety in the work environment continues to remain the number one goal of our day-to-day operations.

A job safety planning initiative launched last year is now fully in place for all field staff. Work by the fall protection committee has resulted in the installation of anchor points for fall protection equipment as well as the establishment of a mobile, cold weld procedure for installing anchor points on transformers.

One-day information sessions brings health and safety awareness to office employees.

A safety watch training program is being developed to ensure the safety of employees, contractors and customers near job sites. Other improvements include introducing a flame resistant clothing program and the development and testing of new ice rolling procedures emphasizing employee safety.

At Manitoba Hydro, the accident severity rate was 24.9 days lost per hundred workers as compared to 28.4 days in 1999. Disabling injury/illness frequency increased slightly from 1.7 in 1999 to 1.9 per 200 000 hours worked. High-risk accidents dropped to 8 in 2000 from 14 the previous year. Our target in this area is zero.

Public safety campaigns, programs

Our jointly sponsored safety program with Local 2034, International Brotherhood of Electrical Workers continued for the ninth consecutive year. Messages about the hazards associated with ice build-up on power lines and the precautions to take during storm-related power outages were featured in billboards, news articles and public radio service announcements.

Integration of our gas operations included bringing together electricity and gas public safety and education programs and activities.

Manitoba Hydro's participation in Operation Public Alert (PAL), a community-based program designed to help the public and law authorities prevent, report crime and send aid to people in distress, was enhanced during 2000-01. The Manitoba Hydro and Centra Gas PAL programs were amalgamated, providing broader assistance to the public. In addition to employees who have vehicles equipped with a mobile radio, the program was expanded to include employees who have the use of corporate cell phones.

The integration of our gas operations included bringing together electricity and gas public safety and education programs and activities such as Casey the Cat and Louie's Play it Safe Club, Teddy Bear Picnic, SAFE Baby program, and Youth Safety School presentations. A Carbon Monoxide Awareness Program launched during the year heightened public awareness of the dangers associated with this dangerous by-product of combustion. A kite safety activity book was developed and distributed at summer fairs around the province.

Hydro staff providing energy efficiency and safety tips regularly visit schools across Manitoba.

Manitoba Hydro helped deliver a national public education initiative designed to encourage Canadians to take action to reduce greenhouse gas emissions to various educators around the province. As part of the Energy Council of Canada, Action by Canadians, workshops were delivered to attendees in Brandon and Morden. As well, educators in the province received updates on educational resources and energy conservation programs available from Manitoba Hydro.

Commitment to community

We believe in giving back to the communities in which we live and work whether it comes in the form of corporate sponsorship or from our own employees' volunteer efforts. As the province's main energy provider, our support extends to all public sectors in all parts of the province. Through donations at a local Red Cross Blood Clinic or contributions to the United Way, Manitoba Hydro is there in the spirit of giving.

For the eighth consecutive year, our ongoing commitment to the agricultural industry in Manitoba was evidenced at the Royal Manitoba Winter Fair. We also provided opportunities for Manitoba rural communities to experience dance taught by the masters from the Royal Winnipeg Ballet School through sponsorship of their satellite program. The Manitoba Theatre Centre's rural touring production received support as well.

Our support of Portage la Prairie's Island of Lights show allowed us to showcase our Power Smart® brand and promote the efficient use of energy to our customers through the 125 000 lights that make up the displays. The proceeds of the show go to the development of future recreation facilities, providing a long-lasting benefit to the community. We also supported a lighted holiday-themed Winter Wonderland display at the Red River Exhibition Park with proceeds going to the Fire Fighters' Burn Fund.

A Hydro volunteer initiative and a donation of four culverts, equipment and time is seen as a life-line to the lives of thousands of Narcisse red sided garter snakes on their migration routes. Last year approximately 25 000 snakes were flattened by vehicles while crossing a highway to reach their dens.

We participated as the title sponsor for the second consecutive year of Winnipeg's downtown Festival of Lights Parade. Other events supported included the province-wide Multiple Sclerosis Walk and Festival du Voyageur. Two major curling events were also supported—the Scott Tournament of Hearts in Thompson and the Safeway Select Men's Provincial Curling Championship in Selkirk.

Strength in research

We continue our long and valued partnerships with Manitoba universities, research facilities and manufacturers in providing assistance in research and development. Other key alliances are with the Canadian Electricity Association, the Canadian Hydropower Association and the U.S.-based Electric Power Research Institute.

Within the universities, a number of significant research projects are underway. Modeling of anchor and frazil ice growth can lead to minimization of these phenomena and can allow increased power production from existing plants. Research concerning sturgeon in Manitoba waterways will lead to increased understanding of this important heritage species and as an indicator of the sustainable development of our waterways. Several university projects are studying power system stability with the long-term goal of improving the power systems ability to "ride out" system disturbances and give Manitobans uninterrupted power.

We continue our long and valued partnerships in providing assistance in research and development with key alliances.

In cooperation with the Canadian Electricity Association, one of the many initiatives we are participating in is the minimization of damage caused by ice storms. With the funding assistance from the Electric Power Research Institute, we are continuing research in the effects of solar storms on electric power systems. Stray currents produced by sun spot activity have the potential of shutting down power systems and damaging major power system components.

Additional research is continuing in the following areas: power quality and infrared testing of fluorescent ballasts to assist our customers in the selection of equipment; measurement of postglacial rebound to assist in understanding long-term changes in Lake Winnipeg; new materials for insulators for power systems; drought probability research; and diagnostic test methods for underground cables in the residential and commercial areas.

McLeod Harvester Inc., a project supported by Manitoba Hydro for a number of years, is in its final year of testing before placing its product on the commercial market. We are also providing support to APT Power Technologies which is supplying power relay associated devices worldwide.

Shoreline Study Group releases its report

The Lake Winnipeg Shoreline Erosion Advisory Group, established by the provincial government in 1998 in response to concerns raised by residents and cottagers living along Lake Winnipeg, released its report in the fall of 2000. The report confirmed that Manitoba Hydro's reporting of wind eliminated Lake Winnipeg water levels is a reasonably accurate description of the mean lake level. The report also concluded that, in most instances, the erosion, flooding and beach changes on the lake are the result of naturally occurring processes. The advisory group also published a Lake Winnipeg shoreline management handbook. Manitoba Hydro has regulated the outflows from Lake Winnipeg for power production purposes since 1976.

The report concluded that the erosion, flooding and beach changes on the lake are the result of naturally occurring processes.

Business ventures create new opportunities

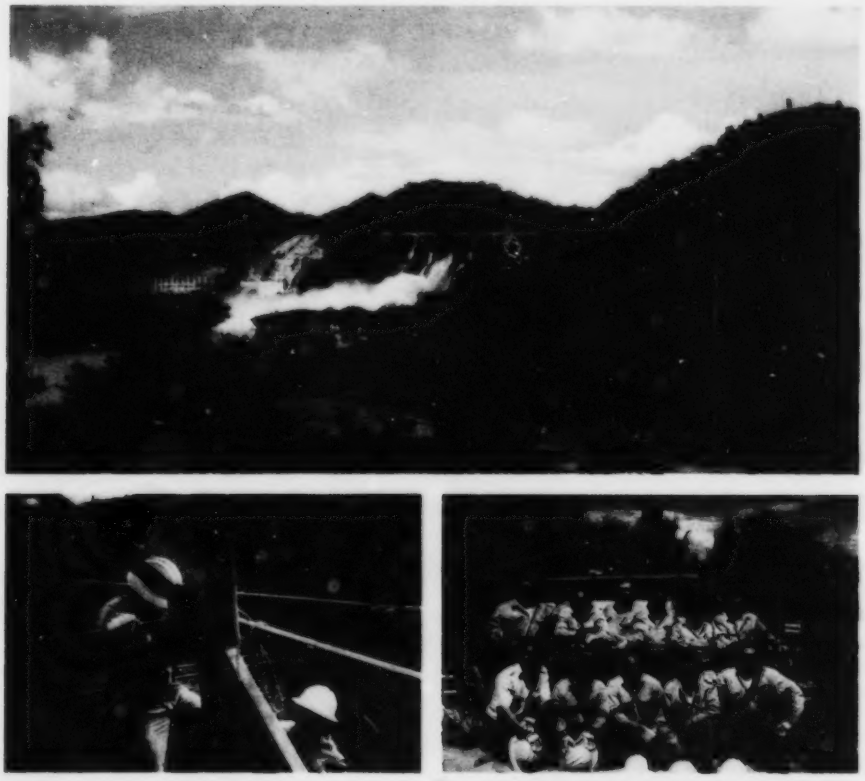
Several of our subsidiaries continue to make inroads into the commercial markets.

Meridium Power Inc. is continuing to expand the market for its developing line of high performance single and three-phase electric motors, intended for rural and industrial customers, and battery-free power protection products intended for commercial, industrial and telecommunications customers.

The Manitoba HVDC Research Centre, in its second year as a subsidiary of Manitoba Hydro, offers its professional power system analysis tools, PSCAD computer software and Real Time Playback hardware, to worldwide markets. New research initiatives have also developed products in the relay testing field and in testing of fluorescent light ballasts.

In December 2000, a business venture called W.I.R.E. Services was created to provide transmission line verification and re-rating services to the electric utility industry. These services are unique in that they use highly accurate data collected by scanning lasers mounted in helicopters that fly over power lines. Through a services agreement with TerraPoint of Houston and Calgary, we will jointly market our expertise in transmission line re-rating technology with TerraPoint's world-class laser data collection expertise.

Manitoba Hydro International (MHI) has established itself as an ethical, environmentally responsible provider of high quality utility services to the international power sector. Over the past 10 years, MHI has worked with 65 client organizations in 35 countries. Significant opportunities are arising through the deregulation, restructuring and privatization of electricity infrastructure in Africa, Asia and the former Soviet Union countries.



MHI continues its work to revamp the electrical sector in the south Central American countries of El Salvador, Nicaragua, Honduras and Guatemala.

Assignments in 2000-01 included projects in Scotland, Central America, Egypt, Jamaica, Lesotho and Pakistan. Two projects involving operations and maintenance work and utility management are currently being considered in the Republic of Georgia and Rwanda respectively.

MHI, along with other partners, are the successful bidders in a five-year Canadian International Development Agency's (CIDA) funded project to provide services related to the Southeast European Electrical System Technical Support project in the Balkan States. Our contribution to the project will be in the areas of transmission contracts, transmission system operation and maintenance, electricity exchange processes, GIS systems, efficiency of distribution systems, human resource management and demand side management. The contract is CIDA's largest project in the region.

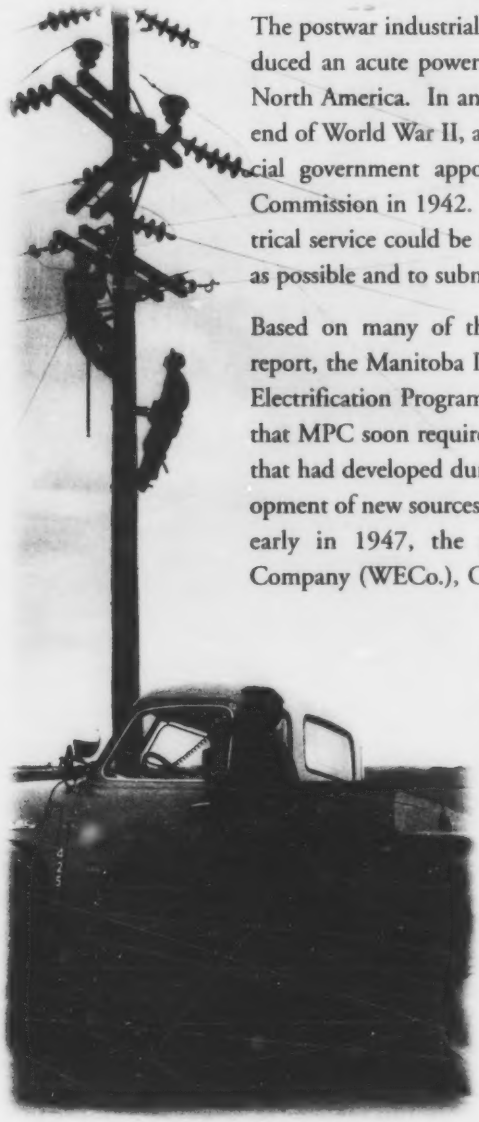
As part of a consortium, MHI is in its third year of a five-year project to revamp the electrical sector in the south Central American countries of El Salvador, Nicaragua, Honduras and Guatemala. To date, 41 staff have been involved in this project, providing a unique opportunity for staff to broaden their experience and knowledge.

All our assignments are undertaken with due regard for the principles of sustainable development. We are proud of our long-standing accomplishments in successfully delivering training and technology transfer programs to utilities around the world.

Energy For Generations: 50 Years of Serving Manitobans

The 50th anniversary of the Manitoba Hydro-Electric Board, now commonly known as Manitoba Hydro, is a special achievement in our corporate history. Over the past 50 years, the men and women of Manitoba Hydro have created a highly reliable, efficient, and renewable hydroelectric generating and transmission system to serve Manitobans.

The formation



The postwar industrial expansion in Manitoba during the 1940s produced an acute power shortage — a problem common throughout North America. In an effort to stimulate employment following the end of World War II, and to deliver electricity to farmers, the provincial government appointed the Manitoba Electrification Enquiry Commission in 1942. The Commission was to determine how electrical service could be extended throughout as much of the province as possible and to submit their report by the end of that year.

Based on many of the findings and recommendations from this report, the Manitoba Power Commission (MPC) launched the Farm Electrification Program in 1945. This program became so extensive that MPC soon required additional power. This load, plus the loads that had developed during the war years, suggested that future development of new sources of generation was necessary. Late in 1946 and early in 1947, the provincial government, Winnipeg Electric Company (WECo.), City of Winnipeg Hydro Electric System (City Hydro), and Manitoba Power Commission (MPC) realized that planning for the development of generating facilities was not keeping pace with the current demand, let alone potential future needs. The government conducted studies that indicated that complete capacity of all Winnipeg River sites would be exhausted by 1951, and additional sources would have to be identified. It was agreed that Manitoba's future power requirements would be best served by a single utility for developing and supplying electrical energy.

1951

• Pinawa Generating Station dismantled after 45 years of continuous service

1952

• Pine Falls Generating Station was the first project undertaken after the MHEB Development Act was passed

Energy For Generations: **50 Years of Serving Manitobans**

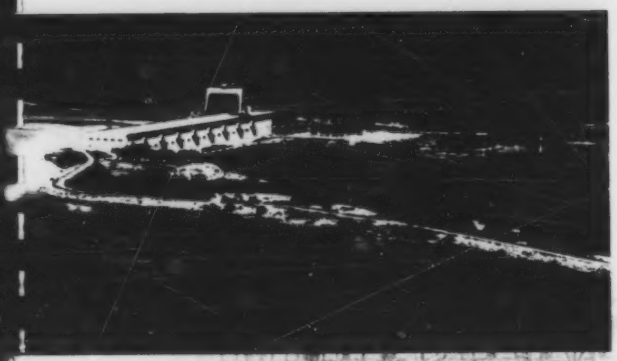
In 1947, the provincial government commissioned Dr. Thomas H. Hogg, a member of the Ontario Hydro Commission, to study Manitoba's electric industry and report on the best way to ensure adequate generating capacity for future generations. The Manitoba Water Power Commission Report (Hogg Report) identified that although the development costs related to hydroelectric sites would be high, the power generated would result in a low-cost power source to serve the growing energy needs of Manitobans. As a result of this report, the Manitoba Hydro-Electric Board (MHEB) was formed.

The MHEB was established in 1949 as an agency of the provincial government under the provisions of The Manitoba Hydro-Electric Development Act. The new Board was to "provide for the continuance of a supply of power adequate for the needs of the province, and to promote economy and efficiency in the generation, distribution, and supply of power."

For the interim period, between the time of the legislation being passed until the appointment of Board members, the provincial Department of Mines and Natural Resources conducted MHEB business. The Board's first members, appointed by the provincial government on May 18, 1951, marked the beginning of the Manitoba Hydro-Electric Board as a separate entity.

Early achievements

The Board's first responsibility was to complete the construction of a hydroelectric generating station at Pine Falls on the Winnipeg River. Pine Falls became operational in 1951. McArthur, the last generating station on the Winnipeg River and the Brandon Generating Station, MHEB's first coal burning generating station, soon followed.

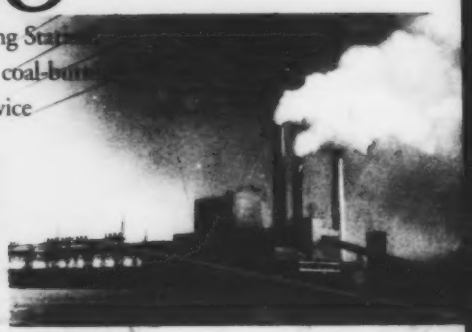


1955

• McArthur Generating Station was the last plant constructed on the Winnipeg River

1958

• Brandon Generating Station
Manitoba Hydro's first coal-burning station in service



Energy For Generations: 50 Years of Serving Manitobans

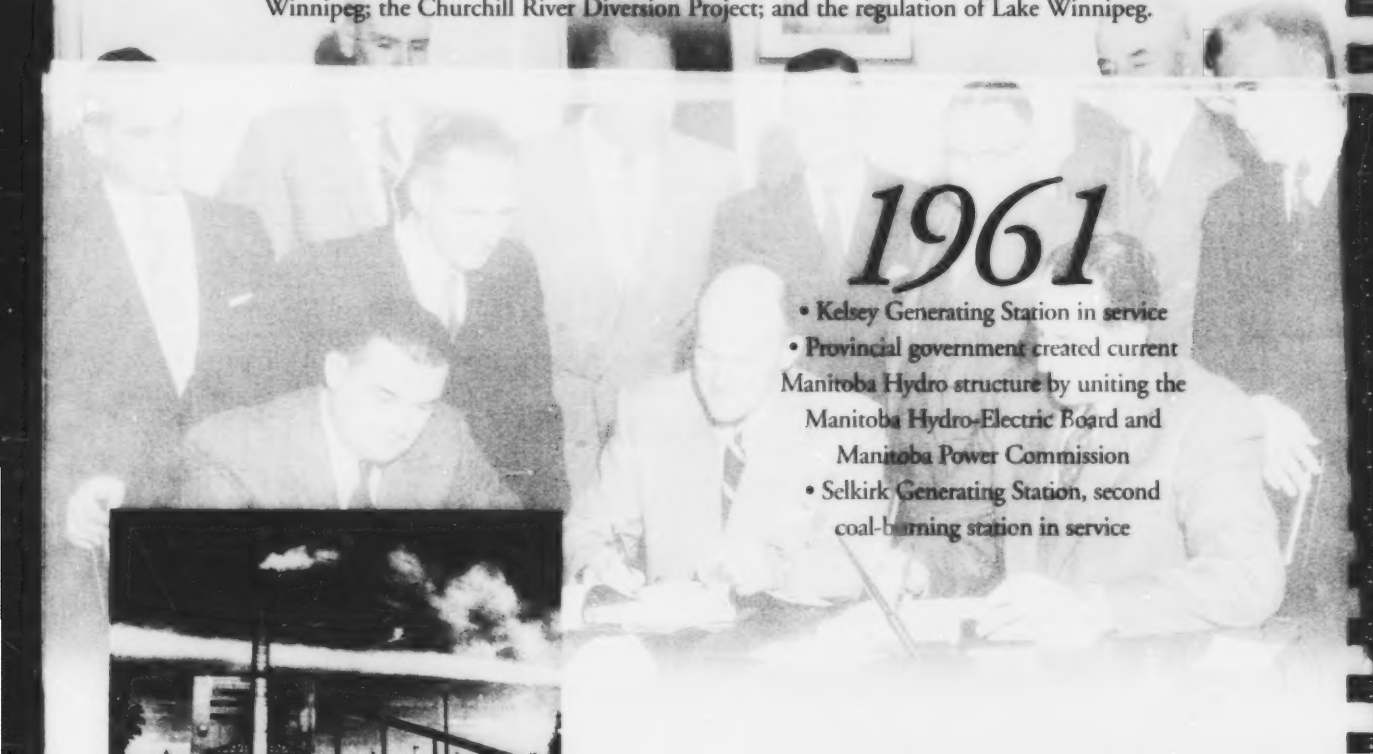
Another task for the Board was consolidation of generation and distribution facilities in Manitoba. A number of various companies and municipal utilities had evolved over the years into three major electrical utilities: the privately owned WECo.; the municipally owned City Hydro; and the provincially controlled MPC. Agreement regarding the distribution of electricity was reached between the MHEB, MPC, and City Hydro in 1955. Under this agreement, City Hydro was to be the sole distributor of electricity within the boundaries of City of Winnipeg, MPC was to serve suburban Winnipeg, and MHEB was responsible for supplying the additional power requirements of City Hydro.

WECo. and City Hydro shared responsibility for distributing electricity in greater Winnipeg. They competed for customers and each utility held monopoly franchises in different suburbs. WECo. also owned and operated a public transportation system and a natural gas utility.

Manitoba Hydro created

By 1961, MHEB and MPC were united and a new organization, Manitoba Hydro, was created via The Manitoba Hydro Act. The utility's activities and policies are administered through the provincial government's appointment of members of the MHEB.

During the 1960s, Manitoba Hydro investigated the hydroelectric development of the Nelson River. Working with federal and provincial governments, the major components of Nelson River development were identified: construction of the Kettle Generating Station with a high voltage direct current (HVDC) transmission system from Kettle to Winnipeg; the Churchill River Diversion Project; and the regulation of Lake Winnipeg.



1961

- Kelsey Generating Station in service
- Provincial government created current Manitoba Hydro structure by uniting the Manitoba Hydro-Electric Board and Manitoba Power Commission
- Selkirk Generating Station, second coal-burning station in service

The primary objective was to convert the rich natural resource of the Nelson River into a power base for industrial and economic development in Manitoba, and to create potential for the sale of power outside the province.

One of the keystones to northern hydroelectric development was the transmission system. Extensive system stability studies were conducted to evaluate alternating current (AC) and direct current (DC) transmission systems. These studies found that DC transmission power losses over long distances would be less, and that the cost of a DC transmission system amounted to about two-thirds of an AC system. Based on these findings, two HVDC transmission lines were constructed in the 1970s.

1970

• Manitoba Hydro acquires two Laurie River generating stations

In the 1980s, Manitoba Hydro was involved as one of five organizations responsible for sponsoring the world's first HVDC Research Centre that opened in Winnipeg. During the same decade, a 500 kV interconnecting transmission line was completed between Winnipeg and Minneapolis. This new line, with the highest AC voltage ever used in the province, more than doubled Manitoba Hydro's power exchange capability to the United States, and helped to build export opportunities. The revenue received from hydroelectric exports contributes to the low rates that benefit Manitoba Hydro customers today. Hydro rates in Manitoba continue to be the lowest overall in Canada and are among the lowest rates in the world.

Towards the 21st Century

Construction of the Limestone Generating Station on the Nelson River started in the late 1980s and was completed in 1992, ahead of schedule and under budget. This station is the fifth on the Nelson River and largest of Manitoba Hydro's stations. During its construction, an extensive environmental inspection program was undertaken to ensure proper management of all natural resources. This corporate commitment was reflected in actions taken to prevent and reduce adverse environmental and human impacts.

1968

• Grand Rapids Generating Station in service

Energy for future Manitoba generations

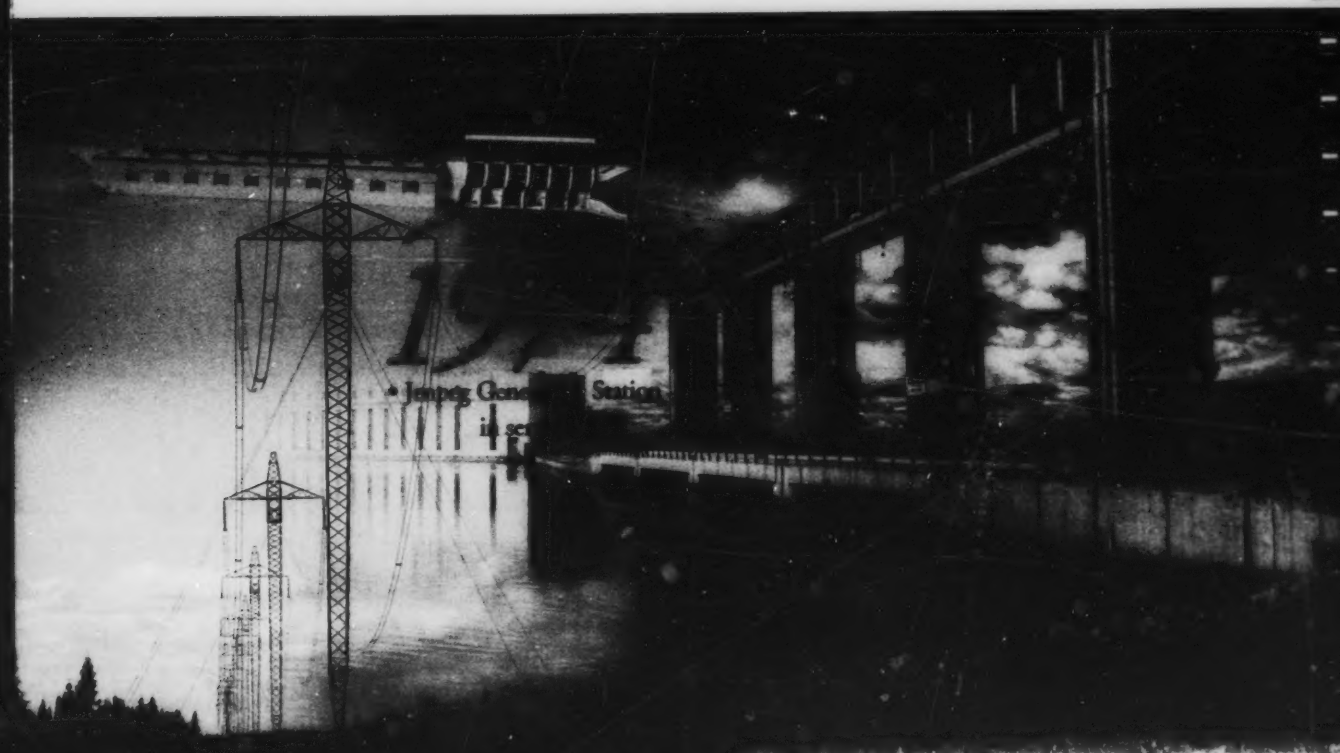
Today, Manitoba Hydro is a leader in environmental research, particularly with regard to fish and natural habitat, and has been recognized for its efforts in energy conservation programs.

Manitoba Hydro also continues to focus on concluding its obligations with communities impacted by northern hydro development. Four of the five signatory First Nations to the 1977 Northern Flood Agreement have benefited from comprehensive implementation agreements signed in the 1990s. Compensation agreements were signed with the Split Lake Cree First Nation, Norway House Cree First Nation, York Factory First Nation, and Nelson House First Nation.

1972

- Nelson River High Voltage Direct Current (HVDC) Bipole I in service (Bipole II in service 1978)

A project to connect nine remote communities northeast of Lake Winnipeg to the central power grid was also concluded in the 1990s. The project leaves only four communities in Manitoba supplied with electricity produced by diesel generators.



1979

- 56-year-old Great Falls Generating Station rehabilitated
- Long Spruce Generating Station in service

Energy For Generations: 50 Years of Serving Manitobans

In the last decade of the 20th century, Power Smart® programs were introduced. Through the identification of energy-efficient products and the provision of energy-efficient guidelines, Power Smart programs have been adopted by residential, agricultural, commercial, and industrial customers to reduce energy consumption and related costs.

With the acquisition of Centra Gas Manitoba Inc. in 1999, the utility became the one-stop energy supplier for Manitobans, offering comprehensive energy expertise and service to its customers.

Today, Manitoba Hydro has assets exceeding $8 billion and is the fourth largest electrical utility in Canada. A Crown Corporation, Manitoba Hydro provides electrical energy to more than 403 000 customers throughout Manitoba as well as natural gas service to 248 000 customers in nearly 100 communities throughout southern Manitoba.

1986

• Limestone Generating Station under construction

1992

• Limestone Generating Station in service ahead of schedule and under budget

Energy For Generations: 50 Years of Serving Manitobans

Nearly all electricity generated is through a clean, renewable energy source—waterpower—at 12 hydroelectric generating stations. More than 75 per cent of the electricity generated flows from five generating stations on the Nelson River in northern Manitoba.

Manitoba Hydro is recognized as a world leader in HVDC technology, and its transmission lines, which follow a route almost 900 kilometres long, are among the longest in the world.

In the span of only five decades, Manitoba Hydro has, indeed, provided a supply of power adequate for the needs of the province. The utility ranks as one of the top three exporting electric utilities in Canada with over 37 per cent of its total revenue coming from export electricity sales—sales that ensure stability in electricity bills in Manitoba.

World-class energy services delivered to Manitobans by Manitobans—providing energy for generations.

1998

- Great Falls Generating Station celebrated 75th Anniversary

1999

- New System Control Centre opened
- Manitoba Hydro purchased Centra Gas from Westcoast Energy

2000

- Construction of the Brandon combustion turbine announced

M121

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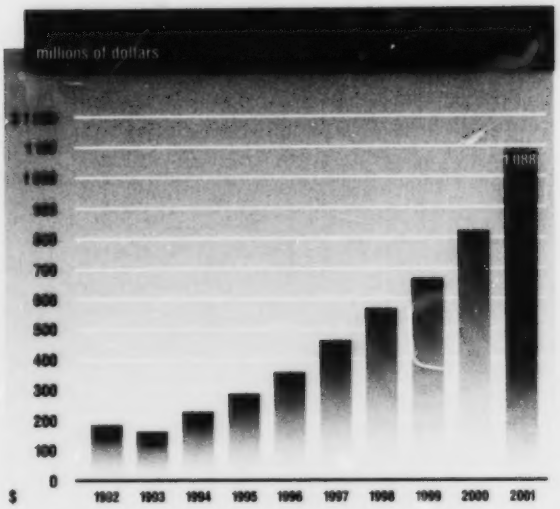
Financial Review

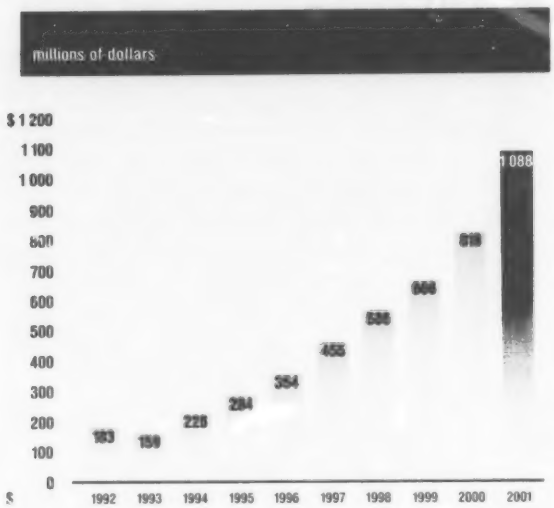


Manitoba Hydro's consolidated net income for the year ended March 31, 2001 was $270 million, the highest level of earnings in the Corporation's history. Compared to 1999-00, net income improved by $118 million, or 78%. The increase in net income was largely attributable to a $104 million increase in revenues from the sale of electricity in export markets. This year's net income increased retained earnings from $818 million at March 31, 2000 to $1 088 million at March 31, 2001.

Consolidated Financial Results (millions of dollars)	2000-01	1999-00*	Change (%)
Gross revenues			
Electricity sales within Manitoba	$ 793	$ 748	6
Extraprovincial electricity sales	480	376	28
Natural gas sales	504	269	87
Total	$ 1 777	$ 1 393	28
Expenses			
Electric	$ 1 006	$ 976	3
Gas (including cost of gas sold)	501	265	89
Total	$ 1 507	$ 1 241	21
Net income	$ 270	$ 152	78
Retained earnings	$ 1 088	$ 818	33
Electrical Operations (billions of kilowatt-hours)			
Generation – integrated system	32.7	30.1	9
Energy sales – Manitoba customers	20.1	19.1	5
Extraprovincial customers	12.2	10.9	12
Manitoba peak load (000 kW)	3 636	3 524	3
Gas Operations (billions of cubic feet)			
Gas sales			
Small general service	28.1	21.2	32
Large general service	19.1	14.1	35
Other	11.9	9.0	32
	59.1	44.3	33
Transportation	17.6	12.9	36
Total	76.7	57.2	34

*Note: Results for 1999-00 include gas revenues and expenses for the eight-month period from the date of acquisition of Centra Gas Manitoba Inc., July 30, 1999.

Financial Review



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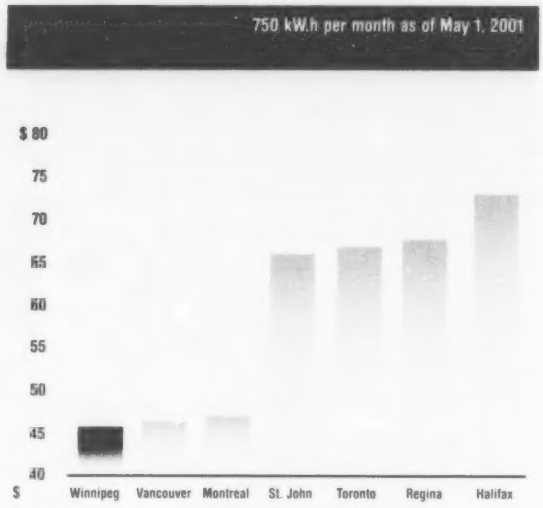
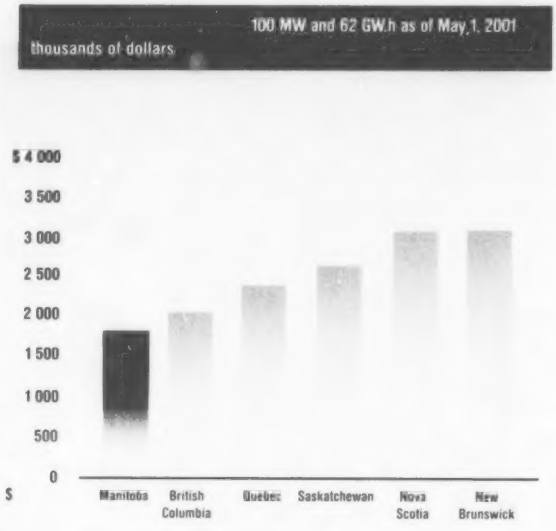
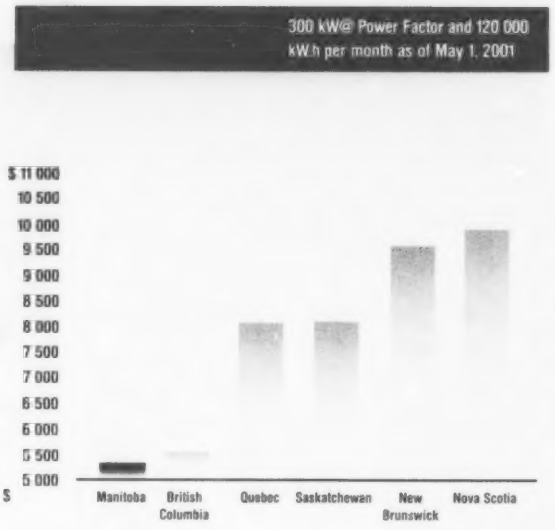
Record sales in the export market and ongoing control over expenditures have allowed Manitoba Hydro to maintain its status of having the lowest domestic electricity rates of any major utility in North America. Large industrial customers of Manitoba Hydro have not had an increase in their electricity rates since April 1992, while residential and small commercial customers have not had their electricity rates changed since April 1997. Again in the year 2001, there will be no increase to electricity rates in Manitoba.

Natural gas operations are carried out by Manitoba Hydro's wholly owned subsidiary, Centra Gas Manitoba Inc. (Centra Gas) which was acquired by the Corporation on July 30, 1999. Centra Gas is the principal distributor of natural gas in Manitoba with approximately 248 000 customers in the residential, commercial and industrial sectors. The acquisition of Centra Gas in 1999 allows the Corporation to be a "one-stop energy company" for its customers while taking advantage of synergies and income tax savings of at least $23 million per year.



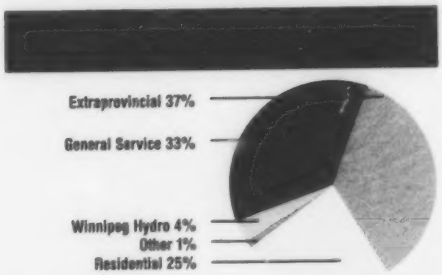




Electrical Operations

REVENUES

Total revenues from the electricity segment exceeded the one billion dollar mark for the fifth consecutive year in 2000-01. Of the total revenue, 58% was derived from retail power sales within the province, 37% from the export power market and 4% from Winnipeg Hydro. In total, revenues rose by 13% over the previous year.



MANITOBA POWER SALES

Manitoba revenues increased to $793 million from $748 million, an increase of $45 million or 6% from the previous year. Electricity consumption in Manitoba was 20.1 billion kilowatt-hours, 1.0 billion kilowatt-hours more than the 19.1 billion kilowatt-hours consumed in the 1999-00 fiscal year. The increase was primarily due to increased residential usage as a result of colder weather experienced this year, and higher industrial customer demand.

Power sales within Manitoba millions of dollars	2000-01	1999-00	Change (%)
Residential customers	$ 320	$ 300	7
General service customers	414	395	5
Winnipeg Hydro	46	42	10
Other	13	11	18
Total	$ 793	$ 748	6
Electrical consumption (billions of kilowatt-hours)	20.1	19.1	5

Revenue from sales to residential customers for 2000-01 has increased by $20 million to $320 million. The number of residential customers increased by 679 during the year, and totalled 353 297 at March 31, 2001.

Revenue from general service customers, comprised of the commercial and industrial sector, increased by $19 million to $414 million for 2000-01. The total number of general service customers increased by 338 to 49 743 at March 31, 2001.

Revenue from Winnipeg Hydro amounted to $46 million, an increase of $4 million from 1999-00. The cost-sharing agreement between the two utilities expired on March 31, 2000 and a new power supply arrangement is in the process of being negotiated. In 2000-01, billings to Winnipeg Hydro were based on power deliveries at an interim Wholesale Rate.

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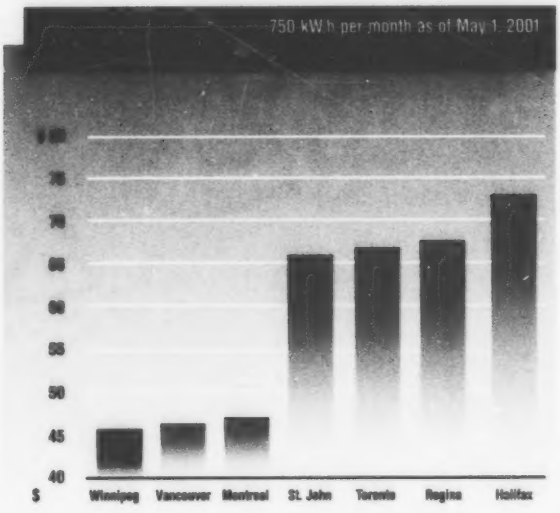

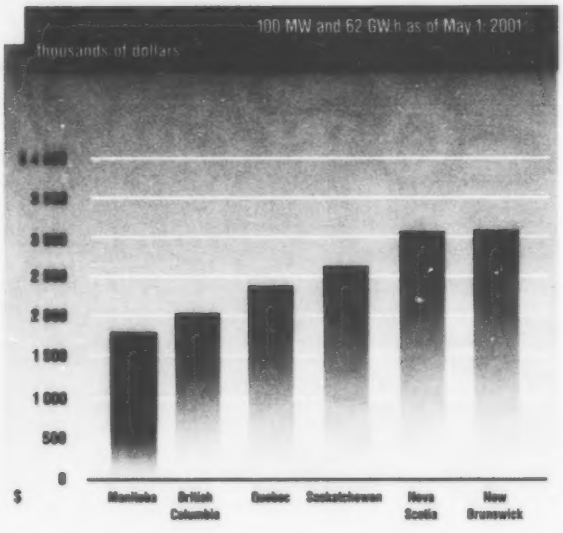

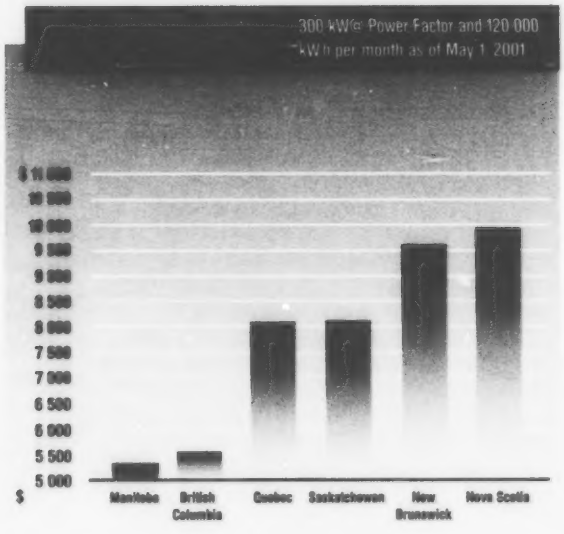

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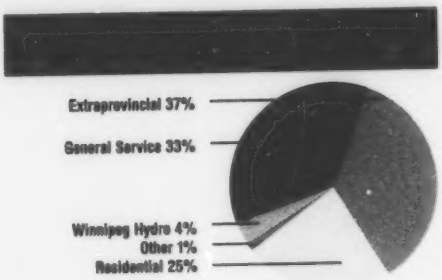

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Other	13	11	18
Total	$ 793	$ 748	6
Electrical consumption (billions of kilowatt-hours)	20.1	19.1	5

Revenue from sales to residential customers for 2000-01 has increased by $20 million to $320 million. The number of residential customers increased by 679 during the year, and totalled 353 297 at March 31, 2001.

Revenue from general service customers, comprised of the commercial and industrial sector, increased by $19 million to $414 million for 2000-01. The total number of general service customers increased by 338 to 49 743 at March 31, 2001.

Revenue from Winnipeg Hydro amounted to $46 million, an increase of $4 million from 1999-00. The cost-sharing agreement between the two utilities expired on March 31, 2000 and a new power supply arrangement is in the process of being negotiated. In 2000-01, billings to Winnipeg Hydro were based on power deliveries at an interim Wholesale Rate.

EXTRAPROVINCIAL POWER SALES

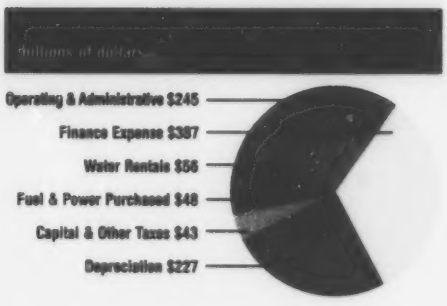
Revenues from extraprovincial power sales increased to a record amount of $480 million, $104 million higher than 1999-00. Sixty percent of this increase is the result of higher electricity prices in the export market. The higher prices are mainly attributable to rising natural gas prices and the expansion of competitive markets within the industry. The remaining 40% of the increase in extraprovincial sales is the result of additional energy available for sales to the export market, due to a 15% improvement in water flows on Manitoba's major river systems.

Extraprovincial power sales millions of dollars	[illegible]	1999-00	Change (%)
United States	$ 371	$ 286	30
Ontario	59	61	-3
Saskatchewan	50	29	72
Total	$ 480	$ 376	28
Electricity sold outside Manitoba (billions of kilowatt-hours)	12.1	10.8	12
Average rate (cents/kilowatt-hour)	3.95	3.45	14

Energy sold outside Manitoba was 12.1 billion kilowatt-hours in 2000-01, 1.3 billion kilowatt-hours more than in 1999-00. In 2000-01, the average return was 3.95 cents per kilowatt-hour, representing an increase of 0.50 cents per kilowatt-hour or 14% over the previous year. Of the total extraprovincial revenue, $371 million or 78% was derived from the U.S., $59 million or 12% from Ontario and $50 million or 10% from Saskatchewan.

EXPENSES

Total expenses of the electricity segment amounted to $1 006 million, an increase of $30 million or 3% from the previous fiscal year. The increase in expenses was largely due to increased fuel and power purchases of $15 million, an increase in depreciation expense of $12 million relating to assets being placed in service during the year, and an increase in operating and administrative expenses of $11 million. These increases were partially offset by a decrease in finance expense of $15 million in 2000-01.



OPERATING AND ADMINISTRATIVE EXPENSES

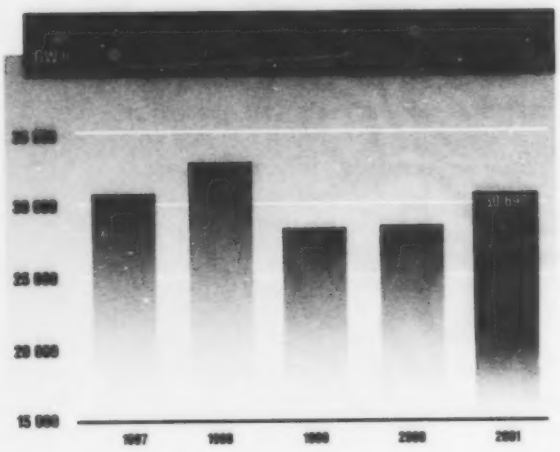
Operating and administrative expenses include the labour, material and overhead costs associated with operating, maintaining and administering the facilities of the Corporation. In 2000-01, operating and administrative expenses amounted to $245 million, an increase of 5% or $11 million over 1999-00. Increased costs were associated with additional maintenance on the generation, transmission and distribution systems of the Corporation.

DEPRECIATION

Depreciation expense totalled $227 million, an increase of $12 million or 6% over 2000-01. Generation depreciation increased by $3 million due to planning study expenditures and hydraulic projects placed in service. Stations and Distribution depreciation increased by $5 million as a result of various projects being placed into service. The Other depreciation increase of $4 million relates to additions to general equipment, motor vehicles and communication systems during the year.

Depreciation expense
millions of dollars

	2000-01	1999-00	Change (%)
Generation	$ 86	$ 83	4
Transmission	10	10	0
Stations	48	46	4
Distribution	45	42	7
Other	38	34	12
Total	$ 227	$ 215	6



WATER RENTALS AND ASSESSMENTS

Water rental costs are incurred for the use of water resources by Manitoba Hydro in the operation of its hydroelectric generating stations. The $5 million increase in water rentals reflects higher water flows on Manitoba's major river systems and the resulting increase in hydraulic generation. Hydraulic generation amounted to 30.7 billion kW.h in 2000-01 compared to 28.4 billion kW.h in 1999-00.

FUEL AND POWER PURCHASED

Fuel and power purchased amounted to $48 million, an increase of $15 million from the previous year. The increase was comprised of increased power purchases of $12 million and increased thermal generation of $3 million. The increase in the cost of power purchases was primarily a result of an increase in the unit price to 3.24 cents per kW.h from 1.90 cents per kW.h in the previous year. In 2000-01, power purchases and thermal generation were required to support contracted export sales and capacity shortfalls. Power purchases and thermal generation amounted to 1.8 billion kilowatt-hours compared to 1.7 billion kilowatt-hours in the previous year.

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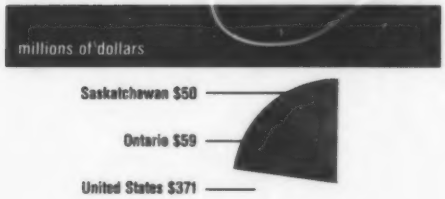

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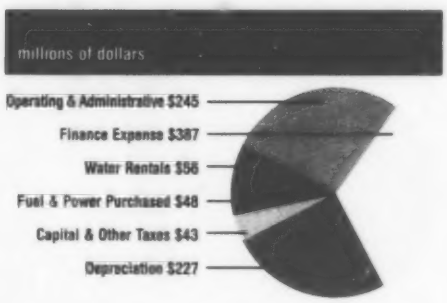

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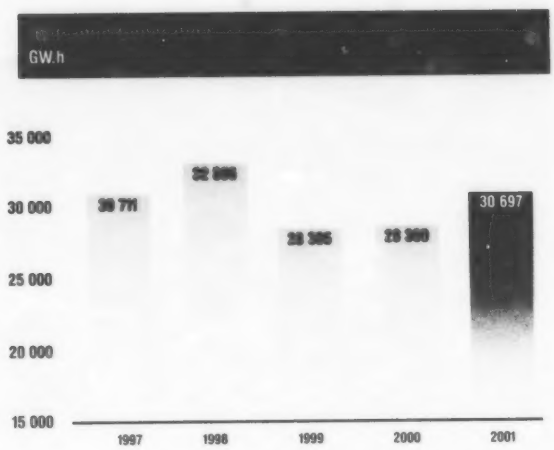

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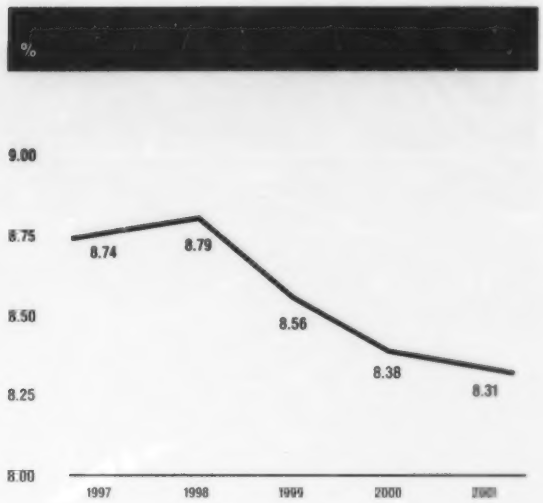
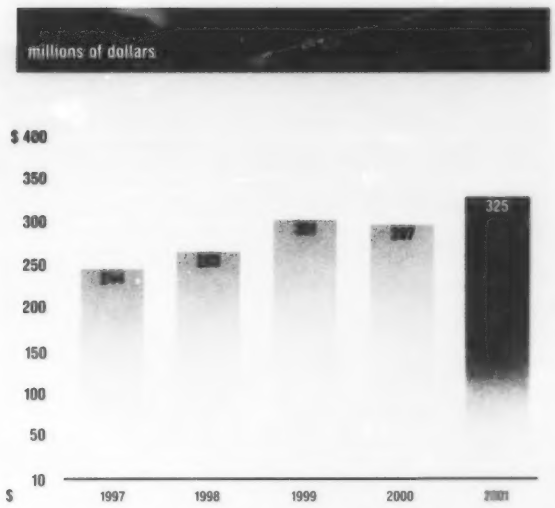
Management's Discussion and Analysis



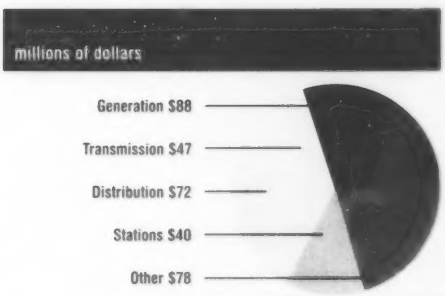
FINANCE EXPENSE

During the 2000-01 fiscal year, finance expense decreased by $15 million to $387 million. The weighted average interest rate declined from 8.38% to 8.31%. Restructuring activities to align the maturity profile of the Canadian sinking fund with upcoming debt maturities produced incremental gains of $20 million during the fiscal year. In addition to these gains, finance expense decreased approximately $12 million due to a reduction in net debt and due to additional interest income generated from investments. These cost reductions were partially offset by a $17 million increase in borrowing costs. In 2000-01, proceeds received from new financing arranged by the Corporation amounted to $292 million. Proceeds were mainly used to refinance maturing debt.

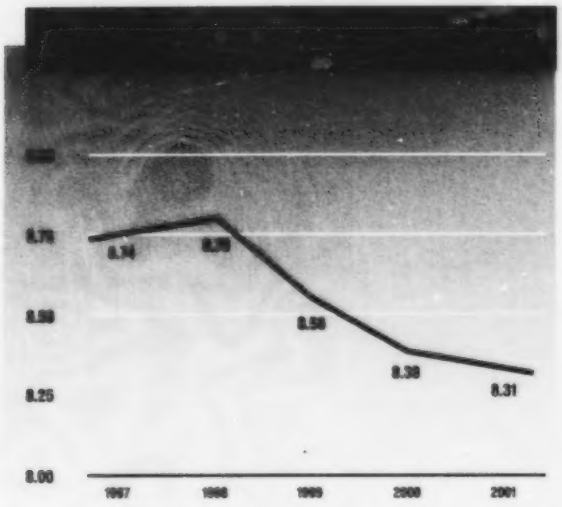


CAPITAL ASSETS

Expenditures for capital construction totalled $325 million in 2000-01 compared to $297 million during the previous fiscal year. Capital expenditures in 2000-01 for generation system rehabilitation, and upgrade and protection projects were $88 million which included $62 million for a new natural gas-fired combustion turbine plant being installed at Brandon, Manitoba. The combustion turbine plant is expected to provide a number of benefits. The most significant of these benefits is that the combustion turbine will allow Manitoba Hydro to sell higher priced firm energy on the export market—energy that was previously sold on an interruptible basis. In addition to the financial benefits, the combustion turbine will provide extra system reliability and security to the western part of the province.



The Corporation expended $47 million for transmission line and upgrade projects. Substation additions and upgrades were $40 million and distribution system additions and modifications were $72 million to meet the service requirements of customers throughout the province. The remaining capital expenditures were for replacements of equipment and facilities.



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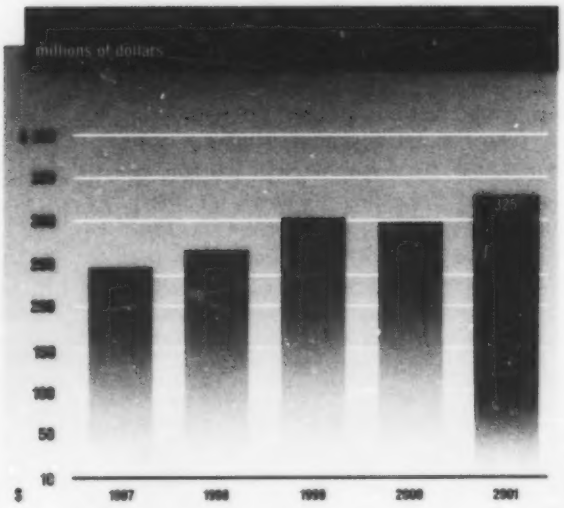

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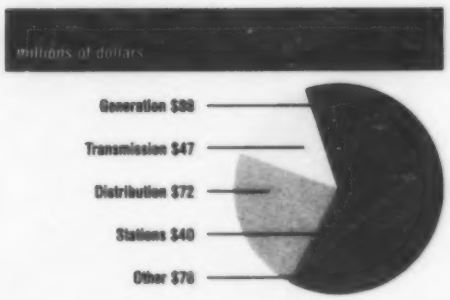

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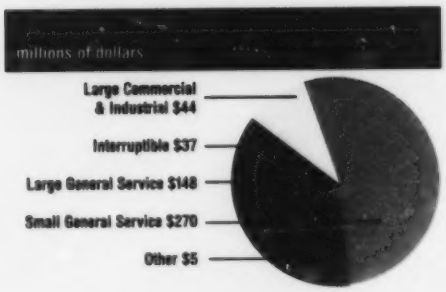
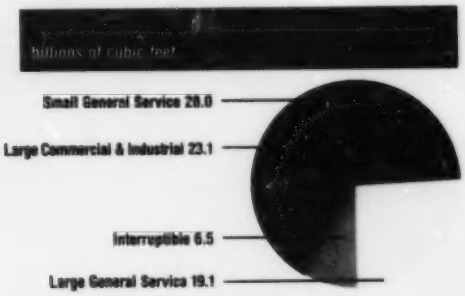
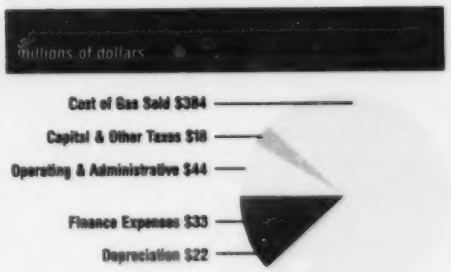
Natural Gas Operations

The gas segment consists of the financial results of Centra Gas for the year ended March 31, 2001, with previous comparatives reflecting the eight-month period since its acquisition on July 30, 1999.

The gas segment's contribution to consolidated net income was $3 million which was consistent with expectations for the year. Revenue from the sale of natural gas and other sources during the year was $504 million, while total expenses amounted to $501 million, including $384 million for cost of gas sold. Actual gas volume deliveries of 77 billion cubic feet (Bcf) reflected both near normal weather and customer consumption patterns. Customer additions of 2 313 for the year increased the total customer base to 248 074 at March 31, 2001.







The significant increases in the wholesale price of natural gas experienced across North America during the year impacted both revenues and cost of gas sold. In accordance with the regulated nature of the company, gas cost increases are reflected in cost of sales only to the extent that they are passed on to consumers through sales rate increases. The difference between the actual cost of gas purchased and the amount recognized as cost of sales is recorded in Accounts Receivable for future recovery in a Purchased Gas Variance Account (PGVA). At the end of the year, the accumulation in the PGVA account totalled $120 million reflecting the Company's decision to defer the impact on customers of the extraordinary cost increases experienced through the year for future recovery over periods of up to 24 months.

As a result of these extraordinary gas cost increases and in accordance with its rate setting methodology, Centra Gas changed its average primary gas rates charged to residential customers on August 1, 2000 by 16.1%, on November 1, 2000 by 11.2% and on February 1, 2001 by 26.0%.

A positive influence on Centra Gas's future earnings was a decision by the Provincial Government during the year not to require payments equivalent to the income taxes that would have been paid if Centra Gas had remained a tax-paying entity. It was previously the intention of Centra Gas to commence equivalent tax payments of approximately $11 million per year immediately following the recovery from ratepayers of the $58 million disposition tax that was paid when Centra Gas was acquired by Manitoba Hydro and converted to non-taxable status. The decision by the Provincial Government also allows Centra Gas to amortize the $58 million disposition tax over 30 years rather than nine years as was assumed in last year's financial statements.

Gross capital expenditures for the year were $27 million, of which $7 million was funded through customer contributions. The capital expenditure program reflects the continuing growth in new business and rural expansion initiatives, system betterment, and other expenditures required to meet the needs of new and existing customers.

Centra Gas's main supply of natural gas, totalling 35 Bcf was purchased under its TransCanada Gas Services (TCGS) long-term contract. The monthly pricing mechanism was linked to Alberta pricing, with 70% of the price based on the AECO hub prices and 30% linked to the Empress hub pricing. Spot gas, totalling 8 Bcf, was purchased under pricing arrangements based on daily Alberta pricing indexes. The balance of the deliveries were either purchased from brokers on behalf of customers or directly purchased by brokers for sales to customers.

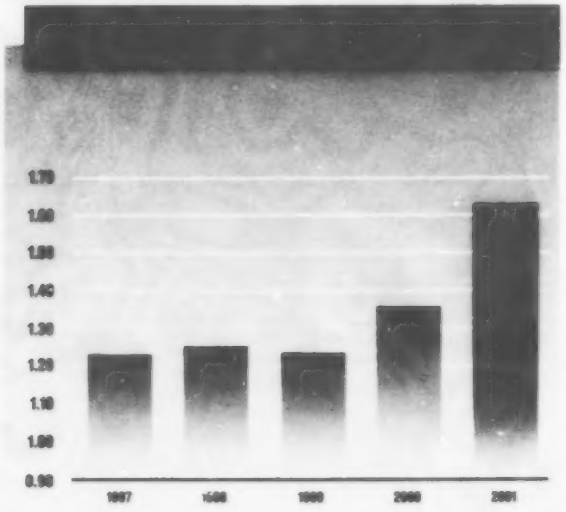
There are currently two services offered by Centra Gas to facilitate the Direct Purchase market – Buy/Sell Service and Western Transportation Service (WTS). Under the Buy/Sell Service, the Primary gas purchased by the consumer or the broker is sold to Centra Gas at Empress, at the Buy/Sell reference price (the average system supply cost of Primary Gas from Western Canada for that month). Under WTS introduced this year, Centra Gas is only responsible for transporting the Primary Gas purchased by the consumer or broker from Western Canada to the consumer. The broker or supplier of the gas sets the price of the Primary Gas to the consumer. At March 31, 2001 there were 32 442 Buy/Sell customers and 9 157 WTS customers receiving gas under Direct Purchase arrangements.

FINANCIAL TARGETS

The Corporation has three primary financial targets to enhance its financial strength, to contribute to rate stability and predictability, and to protect the Corporation and its customers from a variety of other risks. The financial targets are:

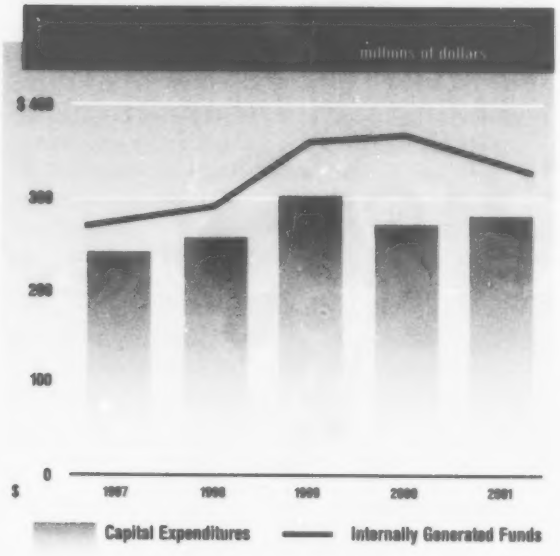
Interest Coverage

Maintain an annual gross interest coverage ratio in the range of 1.20 to 1.35. The interest coverage ratio indicates the extent to which net income is sufficient to pay gross interest on debt. The Corporation's interest coverage ratio improved from 1.35 in 1999-00 to 1.62 in 2000-01 as a result of the significant growth in earnings and decrease in finance expense.



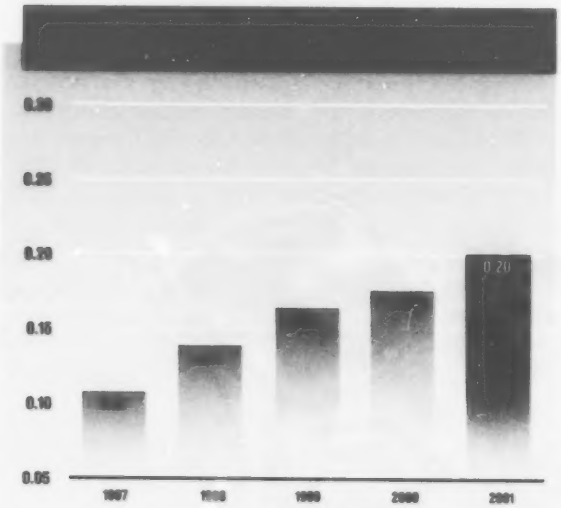
Cash Flow/Capital Expenditures

Fund all capital construction requirements from internal sources (except during periods when major generation and/or major transmission facilities are being added to the system). In 2000-01, internally generated funds exceeded net capital construction expenditures (excluding construction costs of the Brandon combustion turbine generation facility) by $57 million resulting in a cash flow/capital expenditure ratio of 118% in 2000-01 compared to 128% in 1999-00.



Debt/Equity

Achieve a minimum debt/equity ratio of 75:25 by 2005-06. The debt/equity ratio provides an indication of the relative percentage of assets financed through debt versus equity. The Corporation's debt/equity ratio improved from 83:17 at March 31, 2000 to 80:20 at March 31, 2001.



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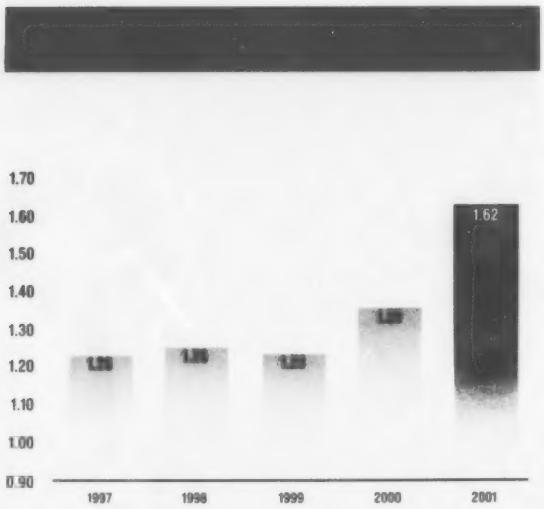

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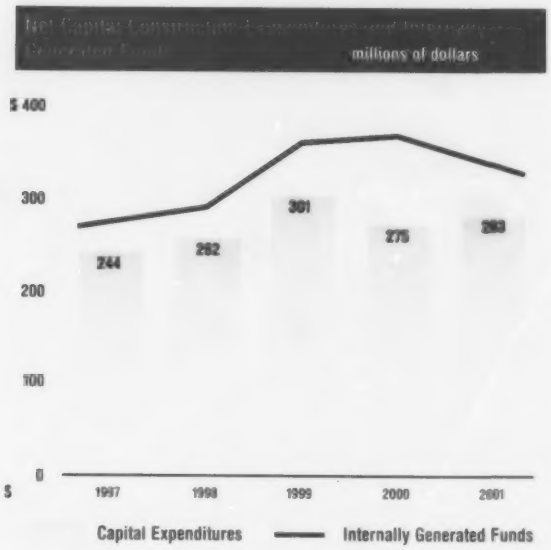

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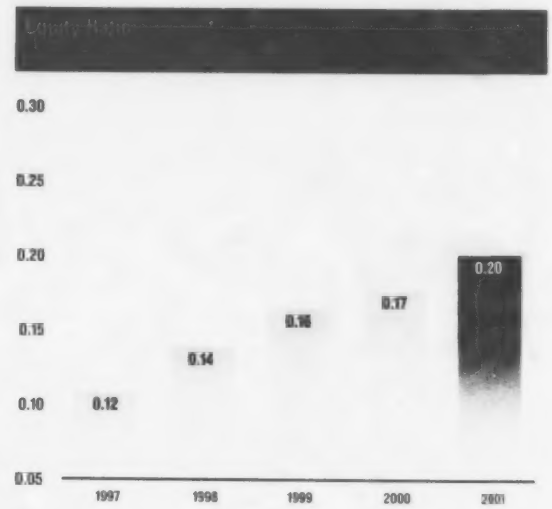

OUTLOOK

Manitoba Hydro continues to reap the benefits from strong export sales that are expected to continue into the foreseeable future. With solid export revenue, steady provincial load growth and continued control over expenditures, the Corporation's financial position is considerably strengthened such that it can take advantage of future opportunities within energy markets and withstand risks such as drought or economic downturns.

Domestic electricity load is expected to grow at an average of 1.7% annually over the next 10 years. Manitoba Hydro can accommodate increases in domestic load and meet firm export sales commitments by upgrading existing facilities, building new facilities such as the natural gas combustion turbine in Brandon, and pursuing Power Smart® initiatives.

In the longer term, Manitoba Hydro is well positioned to capitalize on the expected continuing high demand for electricity. The Corporation anticipates that the source of major new generation in Manitoba will be hydro-based, and is actively negotiating with northern Manitoba First Nation communities that may be impacted by these developments prior to deciding which project or projects to apply for licensing. Besides agreement on the necessary planning and environmental studies, there is potential for the affected communities to share in ownership of these projects through equity participation.

Through its subsidiary, Centra Gas, the Corporation will continue to secure and manage natural gas supplies to meet the needs of gas customers in the most efficient and economical manner. Expansion into new franchise areas for natural gas will be pursued in cases where it is economical for new customers while not being detrimental to our existing gas customer base. It is hoped that last year's steep increase in the market price for natural gas will give way to a more stable period of gas pricing, but if this fails to materialize, Centra Gas will continue to use whatever cost-efficient means are available to protect customers against extreme rate volatility.

Adhering to its goal of ensuring that capital expenditures do not exceed internally generated funds, Manitoba Hydro's capital investments will cover growth requirements and improvements to existing electrical and gas facilities. The Corporation expects to preserve an energy system that is among the most reliable and lowest cost in North America.

Through managing costs and maintaining export market access, electricity rate increases over the next 10 years are anticipated to be well below the projected rates of inflation. This will build upon the electricity rate freeze that has been in effect for the last several years and will further provide Manitoba residents with a lower cost of living and Manitoba businesses with a competitive advantage over other jurisdictions.

It has been almost two years since Manitoba Hydro acquired Centra Gas and the transformation into a one-stop provider of high quality energy services is ongoing. The cost savings identified at the time of acquisition are being realized and the Corporation will continue to make changes in areas to enhance service and further improve efficiencies. Through these activities the Corporation can reduce the need to increase rates charged to our customers. Manitoba Hydro's acquisition of Centra Gas, its subsidiary investments and the Corporation's goal to expand its business are representative of how the Corporation will progress in an energy industry that continues to undergo unprecedented change.

Management Report

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. In management's opinion the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available up to June 1, 2001. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management maintains internal controls to provide reasonable assurance that the assets of the Corporation are properly safeguarded and that the financial information is reliable, timely and accurate. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and to the Audit Committee of the Board.

The responsibility of the external auditors, KPMG LLP, is to express an independent, professional opinion on whether the consolidated financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Audit Committee of the Board is composed of three members of the Manitoba Hydro-Electric Board. The Audit Committee of the Board meets with representatives of the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its respective responsibility and to review the consolidated financial statements before recommending approval by the Board. The Board has reviewed the Annual Report in advance of its release and has approved its content and authorized its publication.

On behalf of Management:

R.B. Brennan, FCA
President and
Chief Executive Officer

V.A. Warden, CMA
Vice-President,
Finance & Administration
and Chief Financial Officer

Auditors' Report

To The Manitoba Hydro-Electric Board

We have audited the consolidated balance sheet of The Manitoba Hydro-Electric Board as at March 31, 2001 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Winnipeg, Canada
June 1, 2001

Consolidated Statement of Income and Retained Earnings
For the year ended March 31

The results for 2000 incorporate eight months of operations of the Corporation's subsidiary Centra Gas Manitoba Inc. from the date of acquisition July 30, 1999.

		2001	2000
			millions of dollars
Revenues			
Electric	Manitoba	$ 793	$ 748
	Extraprovincial (Note 3)	480	376
Gas	Commodity	384	182
	Distribution	120	87
		1 777	1 393
Expenses			
Operating and administrative		289	271
Depreciation and amortization		249	227
Water rentals and assessments (Note 4)		56	51
Fuel and power purchased (Note 5)		48	33
Capital and other taxes		61	58
Cost of gas sold (Note 21)		384	182
		1 087	822
Income before finance expense		690	571
Finance expense (Note 6)		420	419
Net Income		270	152
Retained Earnings, Beginning of Year		818	666
Retained Earnings, End of Year		$ 1 088	$ 818

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Income and Retained Earnings
For the year ended March 31

The results for 2000 incorporate eight months of operations of the Corporation's subsidiary Centra Gas Manitoba Inc. from the date of acquisition July 30, 1999.

			2001		2000
					millions of dollars
Revenues					
Electric	Manitoba	$	793	$	748
	Extraprovincial (Note 3)		480		376
Gas	Commodity		384		182
	Distribution		120		87
			1 777		1 393
Expenses					
Operating and administrative			289		271
Depreciation and amortization			249		227
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Retained Earnings, End of Year		$	1 088	$	818

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet
As at March 31

	2001	2000
	millions of dollars	
ASSETS		
Capital Assets (Note 7)		
In service	$ 8 762	$ 8 454
Less accumulated depreciation	2 609	2 407
	6 153	6 047
Construction in progress	275	188
	6 428	6 235
Current Assets		
Bank balances and temporary investments (Note 14)	–	15
Accounts receivable, accrued revenue and other assets (Note 8)	465	232
Interest receivable	16	20
Materials and supplies, at average cost	59	77
	540	344
Other Assets		
Sinking fund investments (Note 9)	1 149	1 282
Pension assets (Note 10)	443	425
Deferred debt costs (Note 11)	88	121
Other deferred assets (Note 12)	314	285
	1 994	2 113
	$ 8 962	$ 8 692

Approved on behalf of the Board:

Victor H. Schroeder, QC
Chairman of the Board

Charles E. Curtis, FCA
Chairman of the Audit Committee

Consolidated Balance Sheet

	2001	2000
		millions of dollars
LIABILITIES AND RETAINED EARNINGS		
Long-Term Debt (Note 13)		
Long-term debt net of sinking fund	$ 4 871	$ 5 329
Sinking fund (Note 9)	1 149	1 282
	6 020	6 611
Current Liabilities		
Bank overdraft (Note 14)	2	–
Accounts payable and accrued liabilities	191	160
Notes payable (Note 15)	210	–
Accrued interest	95	106
Current portion of long-term debt	435	159
	933	425
Other Liabilities		
Deferred liabilities and credits (Note 16)	254	205
Pension liability (Note 10)	386	358
	640	563
Contributions in Aid of Construction	281	275
Retained Earnings	1 088	818
	$ 8 962	$ 8 692

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet
As at March 31

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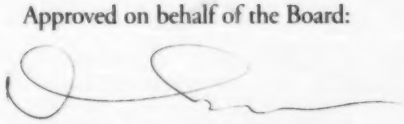

Victor H. Schroeder, QC
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Consolidated Balance Sheet

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The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended March 31

The results for 2000 incorporate eight months of operations of the Corporation's subsidiary Centra Gas Manitoba Inc. from the date of acquisition July 30, 1999.

	2001	2000
		millions of dollars
Cash Provided From Operations		
Cash receipts from customers	$ 1 664	$ 1 352
Cash paid to suppliers and employees	(912)	(567)
Interest paid	(531)	(490)
Interest received	113	79
	334	374
Cash Provided From Financing		
Proceeds from long-term debt	292	943
Sinking fund withdrawals	275	–
Retirement of long-term debt	(609)	(218)
Premium on long-term debt	4	–
Mitigation liability	(2)	(48)
Notes payable	210	(237)
	170	440
Cash Used For Investment		
Additions to capital assets, net of contributions	362	330
Acquisition of subsidiaries	–	242
Taxes paid on acquisition of subsidiaries	–	58
Sinking fund payment	119	178
Pension assets	–	7
Other	40	41
	521	856
Decrease In Cash	(17)	(42)
Cash At Beginning Of Year	15	57
Cash (Bank Overdraft) At End Of Year (Note 14)	$ (2)	$ 15

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended March 31

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Cash At Beginning Of Year	15	57
Cash (Bank Overdraft) At End Of Year (Note 14)	$ (2)	$ 15

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements
For the year ended March 31, 2001

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the financial statements of the Corporation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The results for 2000 incorporate eight months of operations of the Corporation's subsidiary Centra Gas Manitoba Inc. (Centra Gas) from the date of acquisition July 30, 1999.

a) CAPITAL ASSETS

Property, plant and equipment are stated at cost which consists of contracted services, direct labour, material and expense, a proportionate share of overhead costs and interest applied at the effective rates incurred in financing construction. Finance expense is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in service is made, finance expense allocated to construction ceases and depreciation and finance expense charged to operations commences.

b) DEPRECIATION

Depreciation is provided on a straight-line remaining life basis. The major components of generating stations are depreciated over the lesser of the remaining life of the major component or the remaining life of the associated generating station.

The range of the estimated service lives of components within each major asset category is as follows:

Hydroelectric generation	40 - 100 years
Thermal electric generation	35 - 45 years
Transmission lines and stations	20 - 80 years
Distribution lines (Electrical and Gas)	10 - 60 years

Provision for removal costs of major property, plant and equipment is charged to depreciation expense on a straight-line basis over the remaining service lives of the related assets. In accordance with utility accounting practices, retirements of these assets are charged to accumulated depreciation with no gains or losses reflected in operations. The estimated service lives of the assets and the estimate of their removal costs are based upon depreciation studies conducted periodically by the Corporation. A provision for estimated future costs of removal and site restoration costs related to the decommissioning of the thermal generating stations are being recorded in the balance sheet as a deferred liability.

c) FOREIGN CURRENCY TRANSLATION

Exposure Management Program

The impact of exchange fluctuations associated with United States (U.S.) currency has been essentially eliminated through the Corporation's Exposure Management Program. The program effectively hedges the Corporation's net principal debt, interest obligations, power purchases and thermal fuel purchases through future U.S. export revenues and the income from U.S. sinking fund investments.

For the purposes of recording hedged U.S. dollar inflows and outflows, the exchange rate is designated based on the historical book value of the U.S. principal debt ($1.00 U.S. = $1.174 Canadian). Mismatches between U.S. dollar inflows and outflows are bridged through the use of forward exchange contracts or debt and investment instruments which are valued at the designated exchange rate.

United States Long-Term Debt

In accordance with the Corporation's Exposure Management Program, U.S. debt is translated at the rates of exchange in effect at the dates of issue or, if arranged for refinancing purposes, at the historical book value exchange rate of the debt being refinanced. U.S. debt fixed by foreign exchange contract is recorded at the contracted rate.

Current Assets and Current Liabilities

Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at rates of exchange prevailing at the date of the balance sheet or at rates determined under the Corporation's Exposure Management Program. The unrealized exchange gains or losses together with realized exchange gains or losses are credited or charged to operations.

Sinking Fund Investments

U.S. denominated sinking fund investments are translated into Canadian currency at the weighted average historical exchange rate of the U.S. denominated debt.

Other Transactions

Other expense and revenue transactions made in foreign currencies are translated into Canadian currency at the rates of exchange prevailing at the date of the transaction, except transactions covered by monetary contracts which are translated into Canadian dollars at the rates of exchange established by the contracts.

d) **PENSION AND OTHER EMPLOYEE FUTURE BENEFITS**

The costs of pension benefits are determined by an independent actuary using the accrued benefit method and management's best estimate assumptions. Pension expense is comprised of the cost of pension benefits provided during the year plus the amortization of the cost of past service benefits and experience gains and losses.

The unamortized present value of past service benefits and actuarially determined experience gains or losses are recognized in the financial statements as a deferred asset or credit and are amortized over 14 years, the expected average remaining service life of the employees covered by the plans.

All pension assets are stated at current market value.

Other employee future benefits earned by employees includes banked vacation, vested sick leave and long-term disability. The cost of these benefits is determined based on management's best estimate of discount rates, salary escalation and retirement ages of employees.

e) **VACATION EXPENSE**

The vacation expense in respect of employees' services rendered to the date of initial recognition of the liability has been recognized in the financial statements as a deferred asset and is being amortized on a straight-line basis over a period of 10 years. The annual change in the vacation liability is recorded in current operations.

f) **DEBT DISCOUNT AND EXPENSE**

Debt discount and associated issue costs are amortized to finance expense on a straight-line basis over the life of the respective debt.

g) SINKING FUND INVESTMENTS

The Corporation records sinking fund investments at par value. The difference between the cost and the par value of each investment is recorded as a premium or discount and is amortized on a straight-line basis over the remaining life of the investment. Any gain or loss on early disposal of investments is credited or charged to operations.

h) TEMPORARY INVESTMENTS

Temporary investments are recorded at cost.

i) PLANNING STUDIES

Planning studies costs are recorded as a deferred expense and are amortized on a straight-line basis over 15 years. The balance of the unamortized costs of a project which proceeds during the 15 year period is transferred to the capital cost of the project.

j) DEMAND SIDE MANAGEMENT PROGRAMS

The costs of the Corporation's energy conservation programs, referred to as demand side management or Power Smart®, are deferred and amortized on a straight-line basis over periods of up to 15 years.

k) SITE RESTORATION COSTS

Site restoration costs are recorded as a deferred expense and are amortized on a straight-line basis over 15 years.

l) REVENUES

Customers' meters are read and billed on a cyclical basis. Revenues are accrued in respect of energy delivered for those cycles not yet billed.

m) RATE REGULATION

The prices charged for sales of electricity and gas within Manitoba are subject to review and approval by The Public Utilities Board of Manitoba (PUB).

n) CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions are required from customers whenever the costs of extending service exceed specified construction allowances. Contributions are amortized on a straight-line basis over the estimated service lives of the related capital assets.

o) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

p) COST OF GAS SOLD

Cost of gas sold is recorded at the same rates charged to customers. The difference between the recorded cost of gas and the actual cost of gas is carried as an account receivable or recorded as a deferred item and recovered or refunded in future rates.

q) CENTRA GAS ACQUISITION AND INTEGRATION COSTS

Costs associated with the acquisition of Centra Gas have been deferred and are being amortized on a straight-line basis over a period of 30 years.

r) TAXES

The taxes paid by Centra Gas as a result of its change to non-taxable status on acquisition by Manitoba Hydro have been deferred and are being amortized, on a straight-line basis, over a period of 30 years.

s) GOODWILL

Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over 30 years. The Corporation evaluates its goodwill balance to determine whether any impairment has occurred. Where circumstances indicate a possible inability to recover the carrying amount of goodwill relating to a business acquisition, the Corporation evaluates, on an undiscounted basis, the cash flows of the underlying businesses which gave rise to the goodwill.

NOTE 2 ACQUISITION OF CENTRA GAS MANITOBA INC.

Effective July 30, 1999, the Corporation purchased all of the issued and outstanding common shares of Centra Gas Manitoba Inc. and Minell Pipelines Ltd., for a total purchase price of $242 million. Centra Gas Manitoba Inc. is a gas distribution utility with revenues exceeding $500 million. Minell Pipelines Ltd. consists solely of a 70 kilometre pipeline between Saskatchewan and Manitoba. The acquisition has been accounted for using the purchase method, and the results of Centra Gas Manitoba Inc. and Minell Pipelines Ltd. have been reflected in the Corporation's results of operations since July 30, 1999. This transaction was accounted for as follows:

	millions of dollars
Cash consideration paid	$ 242
Net assets acquired:	
Total assets other than goodwill	$ 471
Total liabilities	(294)
Goodwill	65
	$ 242

NOTE 3 EXTRAPROVINCIAL REVENUES

	2001	2000
	millions of dollars	
United States	$ 371	$ 286
Ontario	59	61
Saskatchewan	50	29
	$ 480	$ 376

If United States extraprovincial revenues had been translated at average rates of exchange prevailing throughout the year ($1.00 U.S. = $1.5040 Canadian), the United States extraprovincial revenues for the year would have amounted to $467 million (2000 - $360 million) and total extraprovincial revenues would have amounted to $576 million (2000 - $450 million).

NOTE 4 WATER RENTALS AND ASSESSMENTS

	2001	2000
	millions of dollars	
Water rentals	$ 51	$ 46
Land rentals and assessments	5	5
	$ 56	$ 51

Water rental costs paid to the Province are incurred for the use of water resources by the Corporation in the operation of its hydroelectric generating stations. Pursuant to The Water Power Act, water rental rates have changed to $3.341 per MW.h from $1.6285 per MW.h effective April 1, 2001.

NOTE 5 FUEL AND POWER PURCHASED

	2001	2000
	millions of dollars	
Thermal fuel	$ 18	$ 15
Power purchased:		
Ontario	6	3
Saskatchewan	2	2
United States	22	13
	$ 48	$ 33

If United States power purchases had been translated at average rates of exchange prevailing throughout the year ($1.00 U.S. = $1.5040 Canadian), the United States power purchases for the year would have amounted to $28 million (2000 - $16 million) and total fuel and power purchases would have amounted to $54 million (2000 - $36 million).

NOTE 6 FINANCE EXPENSE

	2001	2000
	millions of dollars	
Interest on debt, excluding Centra Gas acquisition	$ 523	$ 503
Interest on Centra Gas acquisition financing	17	11
Amortization of discount and expenses	6	8
Finance expense allocated to construction	(18)	(17)
Investment income	(108)	(86)
	$ 420	$ 419

Included in interest on debt is $51 million (2000 – $42 million) in respect of the Provincial Guarantee Fee. This fee is calculated using 0.65% in April and 0.70% thereafter, of the total outstanding debt guaranteed by the Province as at each month end (2000 – 0.65%). Effective April 1, 2001 the fee has been increased to 0.95%.

If interest on United States debt and interest income on United States sinking fund investments had been translated at average rates of exchange prevailing throughout the year ($1.00 U.S. = $1.5040 Canadian) the finance expense for the year would have amounted to $469 million (2000 – $464 million).

NOTE 7 CAPITAL ASSETS

	2001			2000		
	millions of dollars					
	In Service	Accumulated Depreciation	Construction in Progress	In Service	Accumulated Depreciation	Construction in Progress
Generation	$ 4 194	$ 1 109	$ 119	$ 4 117	$ 1 038	$ 39
Transmission	645	168	24	602	157	49
Substations	1 594	613	64	1 543	570	51
Distribution	1 647	480	24	1 502	435	20
Other	682	239	44	690	207	29
	$ 8 762	$ 2 609	$ 275	$ 8 454	$ 2 407	$ 188

NOTE 8 ACCOUNTS RECEIVABLE, ACCRUED REVENUE AND OTHER ASSETS

Included in accounts receivable are deferred gas costs in the amount of $120 million (2000 – $10 million) which represent the difference between the actual cost of gas and the recorded costs of sales.

Deferred gas costs will be recovered from customers in future billing periods during the next twelve to twenty-four months.

NOTE 9 SINKING FUND INVESTMENTS

As provided by The Manitoba Hydro Act, the Corporation pays an annual sinking fund installment to the Minister of Finance of the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31, and 4% of the balance in the sinking fund at such date.

Income earned on sinking fund investments is included with investment income for the year.

Sinking funds are invested in government bonds and the bonds of highly rated corporations and financial institutions.

	2001	2000
	millions of Canadian dollars	
Sinking Fund Investments:		
Canadian investments	$ 563	$ 680
U.S. investments	586	602
	$ 1149	$ 1 282

The Canadian sinking fund has a weighted average term to maturity of 5.2 years (2000 – 8.4 years) and an effective yield to maturity of 6.89% (2000 – 7.3%). The U.S. sinking fund has a weighted average term to maturity of 3.3 years (2000 – 4.1 years) and an effective yield to maturity of 6.63% (2000 – 7.0%).

Investments denominated in U.S. currency are not subject to foreign exchange fluctuations as book value rates have been fixed in accordance with the Corporation's Exposure Management Program.

If U.S. sinking funds had been translated at the exchange rate prevailing at the balance sheet date ($1.00 U.S. = $1.5774 Canadian), the investments as at March 31, 2001 would have increased by $201 million Canadian (2000 – increased by $149 million Canadian).

	2001	2000
	millions of Canadian dollars	
Sinking Fund Contributions:		
Canadian investments	$ 22	$ 84
U.S. investments	97	94
	$ 119	$ 178

NOTE 10 PENSION ASSETS AND OBLIGATION

Manitoba Hydro employees are eligible for pensions under the Manitoba Civil Service Superannuation Fund (the Fund). The Fund is a defined benefit plan which requires the Corporation to contribute 50% of the pension disbursements made to retired employees.

The most recent actuarial valuation for the Corporation's obligation was performed with respect to the liability outstanding as at December 31, 2000. This valuation incorporated management's best estimate assumptions and took into consideration the long-term nature of the plan. The pension liability amounted to $386 million at March 31, 2001 (2000 – $358 million).

The significant actuarial assumptions adopted in measuring the Corporation's pension and other employee benefit obligations are as follows:

	2001	2000
Discount rate	7.25%	7.25%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase, including inflation, merit and promotions	3.50 - 4.00%	3.50 - 4.00%

The Corporation fully funds its pension obligation and has recorded pension assets at a market value of $443 million (2000 – $425 million). The pension assets' value at cost is $359 million (2000 – $342 million). The assets are managed on behalf of the Corporation by the Manitoba Civil Service Superannuation Board. Pension assets are invested as follows:

	2001	2000
	millions of dollars	
Bonds and debentures	$ 163	$ 166
Equities	200	191
Mortgages	34	31
Short-term investments	15	15
Real estate	31	22
Fair value of plan assets	$ 443	$ 425
Accrued benefit obligation	386	358
Fund status – plan surplus	$ 57	$ 67
Net accrued valuation adjustments	$ 10	$ (16)
Net expense	$ 6	$ 16
Benefits paid	$ 17	$ 16

In addition, Centra Gas had defined benefit pension plans covering substantially all its current and former employees. Pension fund assets amounted to $49 million at March 31, 2001 (2000 – $51 million), while accrued pension fund obligations were $57 million at March 31, 2001 (2000 – $50 million). Effective January 1, 2001, the former salaried employees of Centra Gas ceased earning further current service benefits under the Centra Gas pension plan for salaried employees, and began earning benefits under the Civil Service Superannuation Plan. Benefit entitlement earned by these employees up to December 31, 2000 will be paid out of the curtailed salaried plan.

The unionized former Centra Gas employees continue to accrue benefits in the Centra Gas union pension plans.

Information about the Centra Gas defined benefit pension plans as at March 31, in aggregate are as follows:

	2001	2000
	millions of dollars	
Fair value of plan assets	$ 49	$ 51
Accrued benefit obligation	57	50
Fund status – plan (deficit) surplus	$ (8)	$ 1
Net accrued valuation adjustments	$ 6	$ (3)
Net expense	$ 1	$ 1
Benefits paid	$ 3	$ 3
Employer contributions	$ 2	$ 1

NOTE 11 DEFERRED DEBT COSTS

	2001	2000
	millions of dollars	
Debt discount and expense	$ 53	$ 63
Premium on purchase of sinking fund investments	14	32
Other	21	26
	$ 88	$ 121

NOTE 12 OTHER DEFERRED ASSETS

	2001	2000
	millions of dollars	
Demand side management programs	$ 39	$ 37
Planning studies	92	70
Goodwill	62	64
Taxes	51	53
Pension valuation	10	–
Vacation expense	8	10
Contract receivables	9	11
Site restoration costs	9	8
Centra Gas acquisition and integration costs	12	11
Other	22	21
	$ 314	$ 285

NOTE 13 LONG-TERM DEBT

The Corporation's long-term debt is either issued by the Corporation or advanced from the Province of Manitoba. In 2001, the Corporation arranged advances from the Province of Manitoba in the principal amount of $292 million (2000 – $898 million) for investment and refinancing purposes as follows:

$237 million ($202 million U.S.) due October 2, 2020 with a 6.84% fixed coupon rate.

$55 million ($47 million U.S.) due October 2, 2020 with a 6.806% fixed coupon rate.

	2001	2000
	millions of dollars	
Long-term debt:		
Advances from the Province of Manitoba represented by debenture debt of the Province	$ 6 009	$ 6 123
Manitoba HydroBonds	215	410
The Manitoba Hydro-Electric Board Bonds	76	76
Centra Gas Manitoba Inc. debentures	155	161
	$ 6 455	$ 6 770
Less: Current portion of long-term debt	435	159
	$ 6 020	$ 6 611

Long-term debt, excluding Manitoba Hydro-Electric Board bonds, is guaranteed by the Province of Manitoba. Centra Gas Manitoba Inc. debentures were valued at their fair market value at the time that Centra Gas was acquired by Manitoba Hydro.

Debt amounts are summarized by years to maturity in the following table:

	2001				2000
	millions of Canadian dollars				
Years	Canadian Maturities	U.S. Maturities	Total Principal Amount of Maturities	Weighted Average Yield Rate	Total Principal Amount of Maturities
2002	$ 259	$ 176	$ 435	6.56%	$ 142
2003	164	–	164	6.70%	183
2004	–	118	118	6.13%	3
2005	–	–	–	–	3
2006	–	–	–	–	3
	$ 423	$ 294	$ 717	6.39%	$ 334
2007-2011	367	411	778	6.01%	987
2012-2031	2 731	2 229	4 960	8.11%	5 290
	$ 3 521	$ 2 934	$ 6 455	7.97%	$ 6 611

Debt denominated in U.S. currency is not subject to foreign exchange fluctuations as book value rates have been fixed in accordance with the Corporation's Exposure Management Program.

If U.S. debt had been translated at the exchange rate prevailing at the balance sheet date ($1.00 U.S. = $1.5774 Canadian), the obligation would have increased by $1 008 million (2000 – increased by $731 million).

Three Centra Gas Manitoba Inc. debentures were called for early redemption on April 12, 2001 with redemption payments amounting to $147 million. The remaining debenture will be called for early redemption on July 16, 2001 with a redemption payment of $10 million.

NOTE 14 BANK BALANCES AND TEMPORARY INVESTMENTS

	2001	2000
	millions of Canadian dollars	
Bank balances	$ –	$ 6
Temporary investments	–	9
	$ –	$ 15

The Corporation has a bank credit facility which provides for overdrafts and notes payable up to an amount of $500 million denominated in Canadian and/or U.S. currency.

NOTE 15 NOTES PAYABLE

Notes payable are outstanding for terms ranging from 34 to 63 days and bear interest at the average effective rate of 5.034% at March 31, 2001.

NOTE 16 DEFERRED LIABILITIES AND CREDITS

	2001	2000
	millions of dollars	
Northern development projects (Note 20)	$ 164	$ 108
Other employee future benefits	56	48
Refundable advances from customers	18	18
Pension valuation	–	16
Decommissioning of thermal generating stations	15	14
Interest income and other credits	1	1
	$ 254	$ 205

NOTE 17 FOREIGN EXCHANGE CONTRACTS

The Corporation utilizes foreign exchange contracts to manage timing differences in its short-term U.S. cash flows. As at March 31, 2001, contracts in the net amount of $14 million U.S. had been purchased forward at a weighted average exchange rate of $1.5003 (2000 – $9 million U.S. sold forward at a weighted average exchange rate of $1.4083).

NOTE 18 FINANCIAL INSTRUMENTS

Fair Value:
The estimated fair values of the Corporation's long-term debt and sinking fund investments are based on year-end market interest and exchange rates for similar debt and investment instruments. As at March 31, 2001 the estimated fair value of the Corporation's total long-term debt amounted to $8 522 million (2000 – $8 112 million). The estimated fair value of sinking fund investments which the Corporation uses for the purpose of repaying long-term debt amounted to $1 413 million at March 31, 2001 (2000 – $1 480 million).

The carrying values of foreign exchange contracts approximate fair value due to the relative stability of foreign exchange rates and the short period to maturity.

The carrying values of all other financial assets and liabilities approximate fair value.

Credit Risk:
Credit risk on sinking fund investments, pension assets and short-term investments is minimized as the Corporation invests exclusively in government-guaranteed bonds or other highly rated investments. The majority of the Corporation's accounts receivable are owing from domestic consumers who are in diversified industries and from sales to other utilities.

Interest Rate Risk:
Interest rate risk is associated with notes payable net of temporary investments, the current portion of long-term debt net of the current portion of sinking fund investments, and floating rate long-term debt which totalled $1 134 million at March 31, 2001 (2000 – $1 132 million). For information purposes, an increase of 1% in the interest rate would reduce net income by $11 million for March 31, 2001 (2000 – $11 million).

Manitoba Hydro utilizes interest rate swaps to manage the Corporation's interest rate exposure. These swaps include blended forward interest rate swaps that have been transacted on $2 billion of debt at blended rates ranging from 6.5% to 7.4%. The lower interest rates produced by these swap transactions reduced finance expense by approximately $23 million in the 2001 fiscal year (2000 – $28 million) which reflects the impacts of the cash requirements associated with these obligations.

NOTE 19 COMMITMENTS

Outstanding commitments, principally for construction, are approximately $185 million ($2000 – $184 million).

NOTE 20 NORTHERN DEVELOPMENT PROJECTS

The Corporation is party to an agreement dated December 16, 1977, with Canada, the Province of Manitoba and the Northern Flood Committee Inc., representing the five First Nations in the communities of Cross Lake, Nelson House, Norway House, Split Lake and York Landing. This agreement, in part, provides for compensation and remedial measures necessary to ameliorate the impacts of the Churchill River Diversion and Lake Winnipeg Regulation projects.

Expenditures incurred to mitigate the impacts of the Churchill River Diversion and Lake Winnipeg Regulation projects amounted to $22 million for the year ended March 31, 2001 ($2000 – $23 million). To date $441 million ($2000 – $419 million) has been spent in mitigating and compensating the project-related impacts.

The Corporation has also entered into agreements with the Province of Manitoba whereby the Corporation has assumed obligations of the Province with respect to northern development projects. The Corporation has assumed obligations, a portion of which remains outstanding, totalling $154 million ($2000 – $101 million) for which water power rental charges were fixed until March 31, 2001. In recognition of the anticipated payments to be incurred, the Corporation has recorded a total liability of $164 million ($2000 – $108 million). Reassessments of these liabilities will be made as settlements are achieved. There are other mitigation issues, the outcomes of which are not determinable at this time.

NOTE 21 SEGMENTED INFORMATION

The Corporation operates primarily in two business segments, electricity and gas. Each segment has their own particular economic characteristics and differs in nature, production processes and technology.

The electricity segment is the Corporation's core activity and encompasses the generation, transmission and distribution of electricity.

The gas segment represents natural gas supply and distribution activities, principally through the operations of Centra Gas.

The following table contains information related to the operating results and assets by segment:

	Electricity		Gas		Total	
	2001	2000	2001	2000*	2001	2000*
	millions of dollars					
Revenue	$ 1 273	$ 1 124	$ 504	$ 269	$ 1 777	$ 1 393
Expenses						
Operating & administrative	245	234	44	37	289	271
Depreciation & amortization	227	215	22	12	249	227
Water rentals & assessments	56	51	–	–	56	51
Fuel & power purchased	48	33	–	–	48	33
Capital & other taxes	43	41	18	17	61	58
Cost of gas sold	–	–	384	182	384	182
Finance expense	387	402	33	17	420	419
Total expenses	1 006	976	501	265	1 507	1 241
Net income	$ 267	$ 148	$ 3	$ 4	$ 270	$ 152
Total assets	$ 8 312	$ 8 231	$ 650	$ 461	$ 8 962	$ 8 692
Cash provided from (used for) operations	$ 458	$ 381	$ (124)	$ (7)	$ 334	$ 374
Cash provided from (used for) financing	$ 22	$ 442	$ 148	$ (2)	$ 170	$ 440
Cash used for investment	$ 497	$ 790	$ 24	$ 66	$ 521	$ 856

*The results for 2000 incorporate eight months of operations of Manitoba Hydro's subsidiary Centra Gas from the date of acquisition, July 30, 1999.

NOTE 22 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2000 have been reclassified in order to conform to the presentation adopted in 2001.

Financial Statistics
For the year ended March 31

	2001*	2000*	1999	1998	1997	1996	1995	1994	1993	1992
					millions of dollars					
Revenues										
Electrical:										
Residential	316	300	300	299	312	301	272	277	271	261
General Service	419	395	400	394	388	378	358	356	349	338
Winnipeg Hydro	46	42	48	46	50	56	54	53	53	54
Extraprovincial	480	376	326	297	268	246	253	232	143	97
Other Revenue	12	11	9	6	6	5	5	5	5	5
Gas:										
Residential	240	137	–	–	–	–	–	–	–	–
Commercial/Industrial	259	130	–	–	–	–	–	–	–	–
Transportation	2	1	–	–	–	–	–	–	–	–
Other Revenue	3	1	–	–	–	–	–	–	–	–
	1 777	1 393	1 083	1 042	1 024	986	942	923	821	755
Expenses										
Operating & Administrative	289	271	226	214	226	224	222	215	217	219
Depreciation & Amortization	249	227	198	191	178	169	160	153	139	118
Water Rentals	56	51	50	56	51	47	45	44	46	38
Fuel & Power Purchased	48	33	59	14	13	14	10	18	7	10
Finance Expense	420	419	411	419	418	426	427	413	426	343
Capital & Other Taxes	61	58	39	37	37	36	22	10	10	9
Cost of Gas Sold	384	182	–	–	–	–	–	–	–	–
	1 507	1 241	983	931	923	916	886	853	845	737
Net Income (Loss)	270	152	100	111	101	70	56	70	(24)	18
Assets										
Capital Assets in Service	8 762	8 454	7 815	7 441	7 089	6 866	6 634	6 395	6 160	5 602
Less Accumulated Depreciation	2 609	2 407	2 217	2 054	1 899	1 778	1 638	1 502	1 374	1 259
Construction in Progress	275	188	176	221	274	222	173	174	197	514
Sinking Fund Investments	1 149	1 282	1 111	988	637	555	527	456	420	365
Current & Other	1 385	1 175	981	1 021	1 032	872	753	1 020	622	1 283
	8 962	8 692	7 866	7 617	7 133	6 737	6 449	6 543	6 025	6 505
Liabilities and Retained Earnings										
Long-Term Debt	6 020	6 611	5 883	5 548	4 246	4 767	5 011	5 158	4 858	4 528
Current & Other	1 573	988	1 050	1 242	2 241	1 486	1 025	1 044	900	1 689
Contributions in Aid of Construction	281	275	267	261	191	130	129	113	108	105
Retained Earnings	1 088	818	666	566	455	354	284	228	159	183
	8 962	8 692	7 866	7 617	7 133	6 737	6 449	6 543	6 025	6 505
Cash Flows										
Cash Provided From Operations	334	374	366	297	273	265	240	232	131	171
Cash Provided From Financing	170	440	64	262	256	141	(211)	447	(291)	1 060
Cash Used For Investment in Capital Assets	362	330	332	248	297	271	233	270	331	697
Financial Indicators										
Interest Coverage [1]	1.62	1.35	1.23	1.25	1.23	1.16	1.13	1.16	0.95	1.04
Debt Ratio [2]	0.80	0.83	0.84	0.86	0.88	0.91	0.92	0.93	0.95	0.94

1 Interest Coverage represents net income (loss) plus interest on debt divided by interest on debt.

2 Debt Ratio represents debt (long-term debt plus notes payable minus temporary investments) divided by debt plus retained earnings plus contributions in aid of construction.

* Consolidated statistics include the operations of Centra Gas Manitoba Inc. from July 30, 1999.

Financial Statistics
For the year ended March 31

	2001*	2000*	1999	1998	1997	1996	1995	1994	1993	1992
	millions of dollars									
Revenues										
Electrical:										
Residential	316	300	300	299	312	301	272	277	271	261
General Service	419	395	400	394	388	378	358	356	349	338
Winnipeg Hydro	46	42	48	46	50	56	54	53	53	54
Extraprovincial	480	376	326	297	268	246	253	232	143	97
Other Revenue	12	11	9	6	6	5	5	5	5	5
Gas:										
Residential	240	137	–	–	–	–	–	–	–	–
Commercial/Industrial	259	130	–	–	–	–	–	–	–	–
Transportation	2	1	–	–	–	–	–	–	–	–
Other Revenue	3	1	–	–	–	–	–	–	–	–
	1 777	1 393	1 083	1 042	1 024	986	942	923	821	755
Expenses										
Operating & Administrative	289	271	226	214	226	224	222	215	217	219
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Fuel & Power Purchased	48	33	59	14	13	14	10	18	7	10
Finance Expense	420	419	411	419	418	426	427	413	426	343
Capital & Other Taxes	61	58	39	37	37	36	22	10	10	9
Cost of Gas Sold	384	182	–	–	–	–	–	–	–	–
	1 507	1 241	983	931	923	916	886	853	845	737
Net Income (Loss)	270	152	100	111	101	70	56	70	(24)	18
Assets										
Capital Assets in Service	8 762	8 454	7 815	7 441	7 089	6 866	6 634	6 395	6 160	5 602
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Liabilities and Retained Earnings										
Long-Term Debt	6 020	6 611	5 883	5 548	4 246	4 767	5 011	5 158	4 858	4 528
Current & Other	1 573	988	1 050	1 242	2 241	1 486	1 025	1 044	900	1 689
Contributions in Aid of Construction	281	275	267	261	191	130	129	113	108	105
Retained Earnings	1 088	818	666	566	455	354	284	228	159	183
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Cash Provided From Financing	170	440	64	262	256	141	(211)	447	(291)	1 060
Cash Used For Investment in Capital Assets	362	330	332	248	297	271	233	270	331	697
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Interest Coverage [1]	1.62	1.35	1.23	1.25	1.23	1.16	1.13	1.16	0.95	1.04
Debt Ratio [2]	0.80	0.83	0.84	0.86	0.88	0.91	0.92	0.93	0.95	0.94

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2 Debt Ratio represents debt (long-term debt plus notes payable minus temporary investments) divided by debt plus retained earnings plus contributions in aid of construction.

* Consolidated statistics include the operations of Centra Gas Manitoba Inc. from July 30, 1999.

Operating Statistics
For the year ended March 31

	2001*	2000*	1999	1998	1997	1996	1995	1994	1993	1992
Integrated System Manitoba Hydro & Winnipeg Hydro										
Winter Capability (000 kW)	**5 210**	5 116	5 137	5 137	5 343	5 343	5 343	5 343	5 343	5 077
Manitoba Firm Peak Demand (000 kW)	**3 636**	3 524	3 559	3 490	3 409	3 588	3 268	3 514	3 404	3 398
Percentage Change	**+3.2**	-1.0	+2.0	+2.4	-5.0	+9.8	-7.0	+3.2	+0.2	-3.1
Total Energy Supplied (000 000 kWh)										
Manitoba Hydro Generation	**31 557**	29 035	29 235	33 079	30 874	28 325	27 138	26 438	26 747	22 911
Winnipeg Hydro Generation	**1 130**	1 111	808	952	968	993	981	1 010	1 067	1 036
Total Generation	32 687	30 146	30 043	34 031	31 842	29 318	28 119	27 448	27 814	23 947
Total Metered Energy Imported from Canada and U.S.A.	**834**	870	1 225	942	1 201	1 238	1 086	1 130	970	1 013
Isolated System	**10**	9	17	28	35	33	30	28	25	23
Total System Supply (Integrated & Isolated)	33 531	31 025	31 285	35 001	33 078	30 589	29 235	28 606	28 809	24 983
Manitoba Load (at Generation)										
Energy Supplied for Manitoba (000 000 kWh)										
Integrated System	**20 115**	19 101	19 398	19 095	19 249	19 024	17 793	18 077	17 745	17 587
Isolated System	**10**	9	17	28	35	33	30	28	25	23
Total Manitoba Load (at Generation)	20 125	19 110	19 415	19 123	19 284	19 057	17 823	18 105	17 770	17 610
Percentage Change	**+5.3**	-1.6	+1.5	-0.8	+1.2	+6.9	-1.6	+1.9	+0.9	+1.0
Manitoba Hydro System										
Electricity Sold (000 000 kWh)										
Residential	**5 282**	4 928	4 947	4 937	5 340	5 288	4 800	5 027	4 868	4 807
General Service	**9 939**	9 448	9 057	9 430	9 159	8 931	8 454	8 493	8 352	8 199
Winnipeg Hydro	**1 431**	1 401	1 684	1 528	1 569	1 582	1 486	1 480	1 409	1 510
Direct Customers	**46**	43	43	54	56	55	57	65	70	86
Total Manitoba Sales	16 698	15 820	16 331	15 949	16 124	15 856	14 797	15 065	14 699	14 602
Total Extraprovincial Sales	12 082	10 776	10 694	14 341	12 531	10 496	10 311	9 528	9 978	6 660
Total Sales	28 780	26 596	27 025	30 290	28 655	26 352	25 108	24 593	24 677	21 262
Gas Deliveries (billions of cubic feet)										
Residential	**24.7**	18.7	–	–	–	–	–	–	–	–
Commercial/Industrial	**34.4**	25.6	–	–	–	–	–	–	–	–
Transportation	**17.6**	12.9	–	–	–	–	–	–	–	–
	76.7	57.2	–	–	–	–	–	–	–	–
Number of Customers										
Electrical:										
Residential	353 297	352 618	349 710	345 847	343 197	340 567	338 539	335 811	333 133	330 688
General Service	49 743	49 405	49 153	48 481	48 204	48 067	47 738	47 415	47 137	46 695
	403 040	402 023	398 863	394 328	391 401	388 634	386 277	383 226	380 270	377 383
Gas:										
Residential	215 167	222 110	–	–	–	–	–	–	–	–
Commercial/Industrial	32 907	23 651	–	–	–	–	–	–	–	–
	248 074	245 761	–	–	–	–	–	–	–	–
Number of Employees										
Regular	3 747	3 806	3 277	3 113	3 021	3 124	3 167	3 175	3 292	3 356
Construction	797	866	836	868	905	859	774	869	940	946
	4 544	4 672	4 113	3 981	3 926	3 983	3 941	4 044	4 232	4 302

* Gas statistics include the operations of Centra Gas Manitoba Inc. from July 30, 1999.

Operating Statistics
For the year ended March 31

	2001*	2000*	1999	1998	1997	1996	1995	1994	1993	1992
Integrated System Manitoba Hydro & Winnipeg Hydro										
Winter Capability (000 kW)	5 210	5 116	5 137	5 137	5 343	5 343	5 343	5 343	5 343	5 077
Manitoba Firm Peak Demand (000 kW)	3 636	3 524	3 559	3 490	3 409	3 588	3 268	3 514	3 404	3 398
Percentage Change	+3.2	-1.0	+2.0	+2.4	-5.0	+9.8	-7.0	+3.2	+0.2	-3.1
Total Energy Supplied (000 000 kW.h)										
Manitoba Hydro Generation	31 557	29 035	29 235	33 079	30 874	28 325	27 138	26 438	26 747	22 911
Winnipeg Hydro Generation	1 130	1 111	808	952	968	993	981	1 010	1 067	1 036
Total Generation	32 687	30 146	30 043	34 031	31 842	29 318	28 119	27 448	27 814	23 947
Total Metered Energy Imported from Canada and U.S.A.	834	870	1 225	942	1 201	1 238	1 086	1 130	970	1 013
Isolated System	10	9	17	28	35	33	30	28	25	23
Total System Supply (Integrated & Isolated)	33 531	31 025	31 285	35 001	33 078	30 589	29 235	28 606	28 809	24 983
Manitoba Load (at Generation)										
Energy Supplied for Manitoba (000 000 kW.h)										
Integrated System	20 115	19 101	19 398	19 095	19 249	19 024	17 793	18 077	17 745	17 587
Isolated System	10	9	17	28	35	33	30	28	25	23
Total Manitoba Load (at Generation)	20 125	19 110	19 415	19 123	19 284	19 057	17 823	18 105	17 770	17 610
Percentage Change	+5.3	-1.6	+1.5	-0.8	+1.2	+6.9	-1.6	+1.9	+0.9	+1.0
Manitoba Hydro System										
Electricity Sold (000 000 kW.h)										
Residential	5 282	4 928	4 947	4 937	5 340	5 288	4 800	5 027	4 868	4 807
General Service	9 939	9 448	9 657	9 430	9 159	8 931	8 454	8 493	8 352	8 199
Winnipeg Hydro	1 431	1 401	1 684	1 528	1 569	1 582	1 486	1 480	1 409	1 510
Direct Customers	46	43	43	54	56	55	57	65	70	86
Total Manitoba Sales	16 698	15 820	16 331	15 949	16 124	15 856	14 797	15 065	14 699	14 602
Total Extraprovincial Sales	12 082	10 776	10 694	14 341	12 531	10 496	10 311	9 528	9 978	6 660
Total Sales	28 780	26 596	27 025	30 290	28 655	26 352	25 108	24 593	24 677	21 262
Gas Deliveries (billions of cubic feet)										
Residential	24.7	18.7	–	–	–	–	–	–	–	–
Commercial/Industrial	34.4	25.6	–	–	–	–	–	–	–	–
Transportation	17.6	12.9	–	–	–	–	–	–	–	–
	76.7	57.2	–	–	–	–	–	–	–	–
Number of Customers										
Electrical:										
Residential	353 297	352 618	349 710	345 847	343 197	340 567	338 539	335 811	333 133	330 688
General Service	49 743	49 405	49 153	48 481	48 204	48 067	47 738	47 415	47 137	46 695
	403 040	402 023	398 863	394 328	391 401	388 634	386 277	383 226	380 270	377 383
Gas:										
Residential	215 167	222 110	–	–	–	–	–	–	–	–
Commercial/Industrial	32 907	23 651	–	–	–	–	–	–	–	–
	248 074	245 761	–	–	–	–	–	–	–	–
Number of Employees										
Regular	3 747	3 806	3 277	3 113	3 021	3 124	3 167	3 175	3 292	3 356
Construction	797	866	836	868	905	859	774	869	940	946
	4 544	4 672	4 113	3 981	3 926	3 983	3 941	4 044	4 232	4 302

* Gas statistics include the operations of Centra Gas Manitoba Inc. from July 30, 1999.

Rod J. Beaudry
Retired Manitoba Hydro employee

Hon. Saul Cherniack, PC, CM, QC
Winnipeg, Manitoba

Charles E. Curtis, FCA
Financial Advisor to the
Minister of Finance
Province of Manitoba

Phil Dorion
Executive Director
Swampy Cree Tribal Council

Ken Hildahl
Director of Operations
Manitoba Government
Employees Union

Gerard Jennissen
Member of the Legislative
Assembly for Flin Flon
Province of Manitoba

Garry Leach
President
Gerdau M.R.M. Steel

Stan McKay
Former Moderator
United Church of Canada

Maria den Oudsten
Chairman of the Board
New Flyer Industries

Victor H. Schroeder, QC
Levine Levene Tadman
Barristers and Solicitors

Michael Spence
Mayor of Churchill and
Member of the York Factory
First Nation

Manitoba Hydro Senior Officers

Robert B. Brennan, FCA
President &
Chief Executive Officer

Ken R. F. Adams
Vice-President
Power Supply

Gerry W. Rose
Vice-President
Customer Service & Marketing

Al M. Snyder
Vice-President
Transmission & Distribution

Ken M. Tennenhouse
General Counsel &
Corporate Secretary

Vince A. Warden
Vice-President
Finance & Administration &
Chief Financial Officer

City Gate: The point or measuring station at which a natural gas distribution utility receives gas from a transmission company. The transmission function may or may not be part of the distribution utility.

Cogeneration: The simultaneous production of electrical and thermal energy from the same fuel source. Cogeneration makes more efficient and economical use of resources than if both forms of energy were produced separately.

Demand: The size of any load, expressed in kilowatts, averaged over a specified period of time.

Distribution system: The wood poles, conductors and transformers that deliver electricity to customers. It transforms high voltages to lower, usable levels. Electricity is distributed at 120/240 volt (V) for most residential customers and 120 V to 600 V for the majority of industrial and commercial customers.

Energy: The ability to do work. Electrical utilities sell electrical energy to their customers who, in turn, convert this energy into a desirable form—such as work, heat, light or sound. It is measured in kilowatt hours (kW.h).

Generator: A machine that converts mechanical energy—such as a rotating turbine driven by water or steam or wind—into electrical energy.

Natural gas: Natural gas is a fossil fuel, made from hydrocarbons stored millions of years ago when plant and material was buried in the earth's crust. Composed mostly of methane, a colourless and non-toxic substance, natural gas creates virtually no unburned particles or smoke to pollute the atmosphere. The products of combustion are chiefly carbon dioxide and water—the same products exhaled by the human body.

Peak load: Record of maximum amount of electricity used in a given time period.

Power grid: A number of interconnecting electrical power systems which link together electrical utilities covering a large geographical area.

Transmission system: The towers and conductors that transport electricity in bulk form from a source of supply to either local areas for distribution, or to power systems of out-of-province electrical utilities. Electricity is usually transported via transmission lines in amounts ranging from 66 kV to 500 kV.

Written-Pole ® Motor: A technology which allows electric motors to be designed for extremely low starting currents and high operating efficiencies.

Accounting terms

Retained Earnings: Net accumulated earnings that a business has not distributed to shareholders.

Sinking Fund: A fund of cash and securities set up to provide for the orderly retirement of a debt.

Financial Instrument: Bonds, provincial advances, short-term promissory notes, temporary and long-term investments, and swap option and foreign exchange contracts.

Swap: An agreement between two parties to exchange cash flows at predetermined rates on specified notional amounts at specified future dates.

Forward Interest Rate Swap: An agreement between two parties to exchange predetermined fixed and floating interest rates on a specified notional amount of a principal debt or investment for a specified term beginning at a future date.

Blended Forward Interest Rate Swap: An agreement between two parties to exchange predetermined fixed and floating interest rates on a specified notional amount of a principal debt or investment for a specified term. The fixed interest rate is a bond yield calculation based on the fixed interest rate of the existing debt or investment and the fixed interest rate of the forward interest rate swap.

Foreign Exchange Contract: An agreement to exchange a predetermined amount of currency on a specified future date at a specified price.

Exposure Management Program: U.S. dollar hedging program used by the Corporation to offset U.S. dollar cash flows from debt, investments and net exports to eliminate the impact of fluctuations in the U.S. dollar exchange rate.

Yield: The average return of a debt or investment using a bond yield convention which recognizes the future interest payments, capital gains or losses, commissions, discounts and premiums.

Weighted Average Yield Rate: The average return of debt or investment using the bond yield convention weighted by the remaining term to maturity.

Units of Measure

BTU: British thermal unit. The amount of energy required to raise the temperature of one pound of water one degree Fahrenheit. It works out to about 1 000 joules.

Gigawatt (GW): The unit of electrical power equivalent to one billion watts or one million kilowatts.

Gigajoule: A measure of energy of natural gas—one billion joules. One gigajoule of energy is equivalent to that provided by approximately 278 hours of electricity or 30 litres of gasoline.

Joule: A unit of energy.

Kilovolt (kV): The unit of electrical pressure, or force, equivalent to 1 000 volts (V).

Kilowatt-hour (kW.h): The unit by which electrical energy is measured. For example, 10 – 100 W light bulbs switched on for one hour would use one kilowatt-hour (1 000 W for one hour).

Megawatt (MW): The unit of electrical power equal to one million watts or 1 000 kilowatts (kW).

GENERATED AND IMPORTED

FOR THE FISCAL YEAR ENDED MARCH 31, 200

Nelson River	78.23%
Billion kW.h generated 26.2	
Limestone	25.50%
Kettle	23.95%
Long Spruce	20.29%
Kelsey	5.48%
Jenpeg	3.01%
Winnipeg River	13.66%
Billion kW.h generated 4.6	
Manitoba Hydro	
Seven Sisters	3.73%
Great Falls	3.07%
Pine Falls	2.11%
McArthur	1.38%
Winnipeg Hydro	
Point du Bois	1.83%
Slave Falls	1.54%
Saskatchewan River	2.87%
Billion kW.h generated 1.0	
Grand Rapids	2.87%
Laurie River	0.19%
Laurie River #1	0.09%
Laurie River #2	0.10%
Thermal and Imports	5.05%
Thermal –	
Billion kW.h generated 0.9	
Brandon	1.59%
Selkirk	0.98%
Imports (Metered) –	
Billion kW.h generated 0.8	
Saskatchewan	1.91%
U.S.A.	0.57%
Ontario	0.01%

Electrical Production Statistics

GENERATING STATIONS AND CAPABILITIES

FOR THE FISCAL YEAR ENDED MARCH 31, 2001

(Normal Winter Capability at system peak)

Interconnected Capabilities

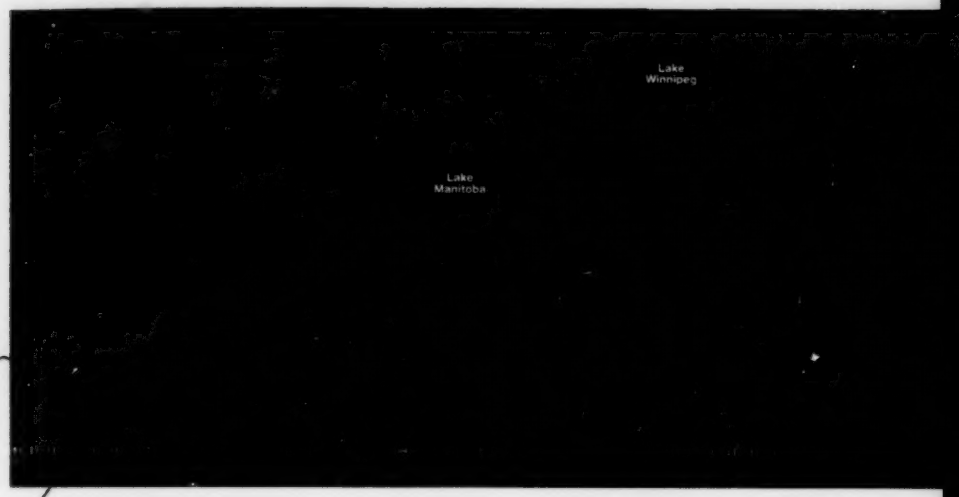
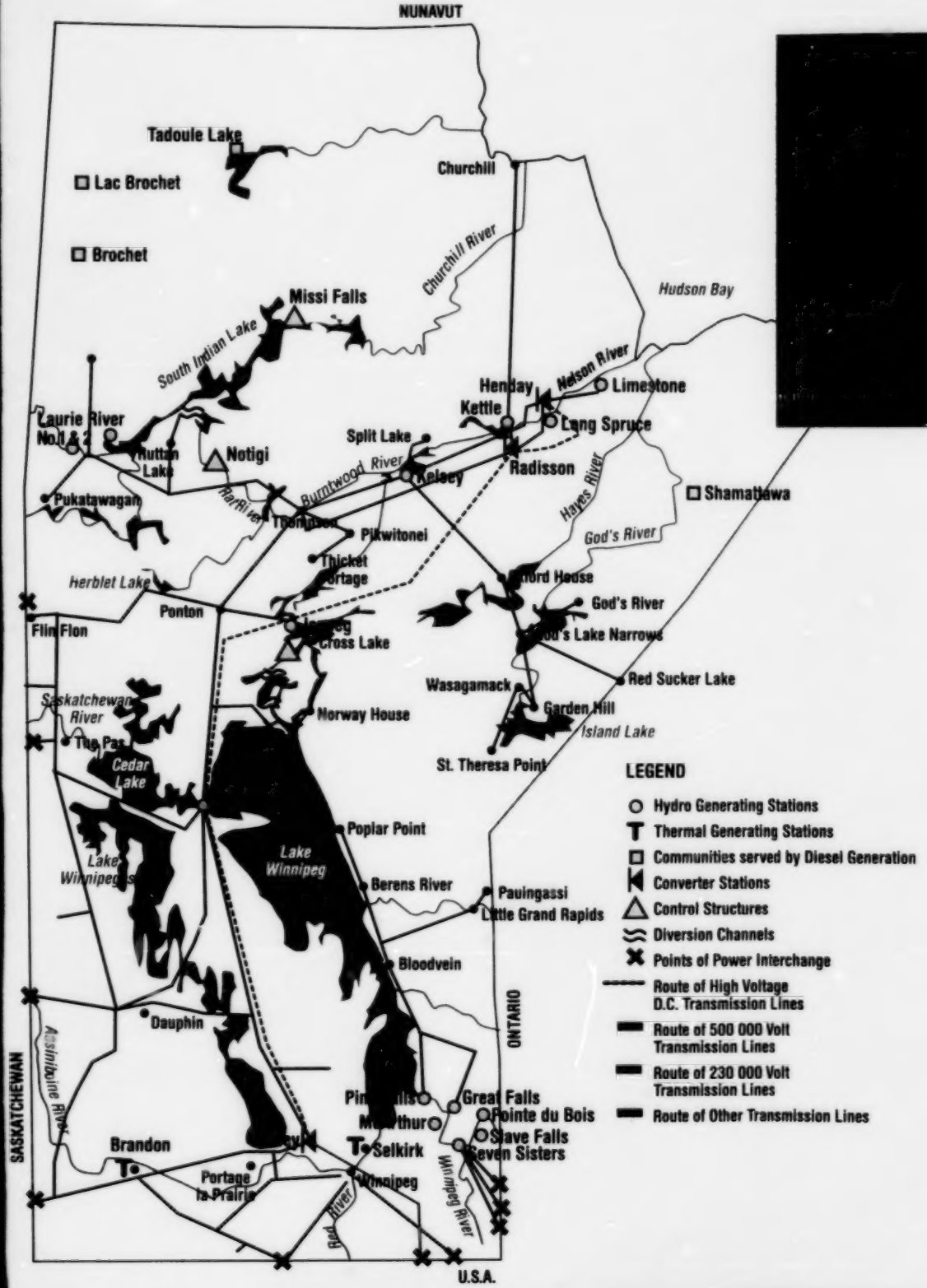
Station	Location	Number of Units	Winter Capability (in Kilowatts)
Manitoba Hydro			
Hydraulic			
Great Falls	Winnipeg River	6	129 700
Seven Sisters	Winnipeg River	6	160 000
Pine Falls	Winnipeg River	6	87 800
McArthur Falls	Winnipeg River	8	53 700
Grand Rapids	Saskatchewan River	4	479 900
Kelsey	Nelson River	7	213 400
Kettle	Nelson River	12	1 232 500
Jenpeg	Nelson River	6	118 600
Long Spruce	Nelson River	10	1 023 300
Limestone	Nelson River	10	1 330 300
Laurie River (2)	Laurie River	3	10 800
Winnipeg Hydro			
Hydraulic			
Pointe du Bois	Winnipeg River	16	75 920
Slave Falls	Winnipeg River	8	62 700
Manitoba Hydro			
Thermal			
Brandon		1	96 100
Selkirk		2	135 200
TOTAL INTERCONNECTED CAPABILITY			**5 209 920**

Isolated Capabilities

Manitoba Hydro	
Diesel	
Brochet	2 750
Lac Brochet	2 305
Shamattawa	2 255
Tadoule Lake	1 450
TOTAL GENERATING CAPABILITY	**5 218 680**

POWER SOURCES AND HIGH VOLTAGE TRANSMISSION

PROVINCE OF MANITOBA AS AT MARCH 31, 2001

CENTRA GAS MANITOBA INC. SERVICE AREAS

AS AT MARCH 31, 2001